

**1040
Quickfinder[®] Handbook
(2019 Tax Year)**

**Updates for December 2019 Legislation
and Other Recent Guidance**

Instructions: This packet contains “marked up” changes to the pages in the *1040 Quickfinder[®] Handbook* that were affected by December 2019 legislation, which was enacted after the *Handbook* was published. Additionally, changes were made based on other guidance issued after the *Handbook* was published. To update your *Handbook*, you can make the same changes in your *Handbook* or print the revised page and paste over the original page.

2019 Key Amounts	
Standard Deduction	Earned Income Credit (Maximum)
MFJ or QW ¹ \$ 24,400	No children \$ 529
Single ² 12,200	1 child 3,526
HOH ² 18,350	2 children 5,828
MFS ¹ 12,200	>2 children 6,557
Dependent ² 1,100 ³	Investment income limit 3,600
Kiddie Tax Threshold	IRA Contribution Limits
\$2,200	< age 50 \$ 6,000
Gift Tax Annual Exclusion	≥ age 50 7,000
\$15,000	
Estate and Gift Tax Exclusion	Elective Deferral Limits
\$11,400,000 ⁴	SIMPLE IRA Plan
Personal Exemption	< age 50 \$ 13,000
\$0	≥ age 50 16,000
Standard Mileage Rates	401(k), 403(b), and 457 Plans
Business 58¢	< age 50 \$ 19,000
Medical/moving 20¢	≥ age 50 25,000
Charitable 14¢	
Profit-Sharing Plan/SEP	
Contribution limit \$ 56,000	
Compensation limit ⁵ 280,000	
Health Savings Accounts (HSAs)	
Self-only coverage	Contribution (deduction) limit \$ 3,500
	Plan minimum deductible 1,350
	Plan out-of-pocket limit 6,750
Family coverage	Contribution (deduction) limit \$ 7,000
	Plan minimum deductible 2,700
	Plan out-of-pocket limit 13,500
Additional contribution amount if age 55 or older \$ 1,000	

¹ Add \$1,300 for age 65 or older or blind, each.
² Add \$1,650 for age 65 or older or blind, each.
³ If greater, amount of earned income plus \$350 (but not to exceed \$12,200).
⁴ Plus the amount of any deceased spousal unused exclusion and/or any restored exclusion related to lifetime gifts to a same-sex spouse.
⁵ For computing employer contributions.

2019 Quick Tax Method	
MFJ or QW Taxable Income	
\$ 0 – \$ 19,400 × 10% minus \$ 0.00 = Tax	
19,401 – 78,950 × 12% minus 388.00 = Tax	
78,951 – 168,400 × 22% minus 8,283.00 = Tax	
168,401 – 321,450 × 24% minus 11,651.00 = Tax	
321,451 – 408,200 × 32% minus 37,367.00 = Tax	
408,201 – 612,350 × 35% minus 49,613.00 = Tax	
612,351 and over × 37% minus 61,860.00 = Tax	
Single Taxable Income	
\$ 0 – \$ 9,700 × 10% minus \$ 0.00 = Tax	
9,701 – 39,475 × 12% minus 194.00 = Tax	
39,476 – 84,200 × 22% minus 4,141.50 = Tax	
84,201 – 160,725 × 24% minus 5,825.50 = Tax	
160,726 – 204,100 × 32% minus 18,683.50 = Tax	
204,101 – 510,300 × 35% minus 24,806.50 = Tax	
510,301 and over × 37% minus 35,012.50 = Tax	
HOH Taxable Income	
\$ 0 – \$ 13,850 × 10% minus \$ 0.00 = Tax	
13,851 – 52,850 × 12% minus 277.00 = Tax	
52,851 – 84,200 × 22% minus 5,562.00 = Tax	
84,201 – 160,700 × 24% minus 7,246.00 = Tax	
160,701 – 204,100 × 32% minus 20,102.00 = Tax	
204,101 – 510,300 × 35% minus 26,225.00 = Tax	
510,301 and over × 37% minus 36,431.00 = Tax	
MFS Taxable Income	
\$ 0 – \$ 9,700 × 10% minus \$ 0.00 = Tax	
9,701 – 39,475 × 12% minus 194.00 = Tax	
39,476 – 84,200 × 22% minus 4,141.50 = Tax	
84,201 – 160,725 × 24% minus 5,825.50 = Tax	
160,726 – 204,100 × 32% minus 18,683.50 = Tax	
204,101 – 306,175 × 35% minus 24,806.50 = Tax	
306,176 and over × 37% minus 30,930.00 = Tax	

Note: Assumes taxable income is all ordinary income. High-income taxpayers may also be subject to the 3.8% tax on net investment income and/or the 0.9% additional Medicare tax on earned income. **Caution:** IRS Tax Tables must be used for taxable income under \$100,000. To calculate the exact tax using the Quick Tax Method for taxable income under \$100,000, round taxable income to the nearest \$25 or \$75 increment before using the formula. Round \$50 or \$100 increments up.

2019 AGI Phase-Out Amounts/Ranges									
Filing Status	Tuition and Fees Deduction ¹	Student Loan Interest Deduction	Education Savings Bond Interest Exclusion	Lifetime Learning Credit	American Opportunity Credit	Education Savings Account (ESA)			
MFJ	\$130,000 / \$160,000	\$140,000 – \$170,000	\$121,600 – \$151,600	\$116,000 – \$136,000	\$160,000 – \$180,000	\$190,000 – \$220,000			
QW	65,000 / 80,000	70,000 – 85,000	121,600 – 151,600	58,000 – 68,000	80,000 – 90,000	95,000 – 110,000			
Single	65,000 / 80,000	70,000 – 85,000	81,100 – 96,100	58,000 – 68,000	80,000 – 90,000	95,000 – 110,000			
HOH	65,000 / 80,000	70,000 – 85,000	81,100 – 96,100	58,000 – 68,000	80,000 – 90,000	95,000 – 110,000			
MFS	Do Not Qualify	Do Not Qualify	Do Not Qualify	Do Not Qualify	Do Not Qualify	95,000 – 110,000			
	Child Tax Credit ¹	Saver's Credit ²	Earned Income Credit ²				Traditional IRA Deduction ³	Roth IRA Contribution	Passive Loss in Active Rental Real Estate
			No Child	1 Child	2 Children	>2 Children			
MFJ	\$400,000	\$ 64,000	\$ 21,370	\$ 46,884	\$ 52,493	\$ 55,952	\$103,000 – \$123,000	\$193,000 – \$203,000	\$100,000 – \$150,000
QW	200,000	32,000	15,570	41,094	46,703	50,162	103,000 – 123,000	193,000 – 203,000	100,000 – 150,000
Single	200,000	32,000	15,570	41,094	46,703	50,162	64,000 – 74,000	122,000 – 137,000	100,000 – 150,000
HOH	200,000	48,000	15,570	41,094	46,703	50,162	64,000 – 74,000	122,000 – 137,000	100,000 – 150,000
MFS	200,000	32,000	Do Not Qualify				0 ⁴ – 10,000	0 ⁴ – 10,000	50,000 – 75,000

Expired Provision Alert: The tuition and fees deduction expired at the end of 2017. It is not available unless Congress enacts legislation extending it.

¹ Amount at which phase-out begins.

² Amount at which phase-out is complete.

³ Phase-out that applies if taxpayer is covered by an employer retirement plan. For MFJ, phase-out range for non-covered spouse is \$193,000–\$203,000.

⁴ Married individuals filing MFS who live apart at all times during the year are treated as single.

U.S. Design Patent No. D811,476



1040 Quickfinder® Handbook

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The Quickfinder cover design is patented by Thomson Reuters and its affiliated companies (U.S. Design Patent No. D811,476).

ISSN 1945-3035
ISBN 978-0-7646-8441-8

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The *1040 Quickfinder® Handbook* is to be used as a first-source, quick reference to basic tax principles used in preparing individual income tax returns. The focus of this handbook is to present often-needed reference information in a concise, easy-to-use format. The summaries, highlights, tax tips, and other information included herein are intended to apply to the average individual taxpayer only. Information included is general in nature and we acknowledge the existence of many exceptions in the area of income tax. The information this handbook contains has been carefully compiled from sources believed to be reliable, but its accuracy is not guaranteed. The author/publisher is not engaged in rendering legal, accounting, or other advice and will not be held liable for any actions or suit based on this handbook. For further information regarding a specific situation, see applicable IRS publications, rulings, regulations, court cases, and Code sections. This handbook is not intended to be used as your only reference source.

QBI Deduction—Taxable Income Thresholds (2019)

Taxable income before QBI deduction			Qualified trade or business	Specified service trade or business
Single, HOH	MFS	MFJ		
\$0–160,700	\$0–160,725	\$0–321,400	20% deduction ¹	20% deduction ¹
\$160,701–210,700	\$160,726–210,725	\$321,401–421,400	Wage/investment limit phases in	Wage/investment limit and SSTB limit phase in
Over \$210,700	Over \$210,725	Over \$421,400	Subject to wage/investment limit	No deduction

¹ 20% deduction is limited to 20% of taxable income (excluding net capital gain).

Social Security Key Amounts

	2020	2019
Maximum earnings subject to tax		
Social security tax	\$ 137,700	\$ 132,900
Medicare tax	No Limit	No Limit
Maximum earnings and still receive full benefits		
Under full retirement age (FRA) at year-end	\$ 18,240	\$ 17,640
Year FRA reached (months up to FRA only)	48,600	46,920
Month FRA reached and later	No Limit	No Limit

Updates, Comments, and Suggestions

For supplemental information to the material in this handbook, or for product content questions and comments, please refer to the *Handbook Updates* or *Content Questions* section of our website: tax.thomsonreuters.com/quickfinder.

2019 Itemized Deductions

Medical expenses	Deductible ¹
State and local taxes	Deductible ²
Mortgage interest	Deductible ³
Home equity interest	Not Allowed ⁴
Investment interest	Deductible
Charitable contributions	Deductible ⁵
Casualty and theft losses	Not Allowed ⁶
Miscellaneous deductions—2% limit	Not Allowed
Overall limit on itemized deductions	Does Not Apply

¹ 7.5% AGI limit applies.
² Overall \$10,000 deduction limit applies (\$5,000 MFS).
³ \$750,000 debt limit for mortgages after December 15, 2017 (\$375,000 MFS).
⁴ Allowed if debt is for residence acquisition, construction, or substantial improvement.
⁵ 60% AGI limit for certain cash donations; donations for college stadium seating rights deduction disallowed.
⁶ Allowed for federally-declared disasters.

Tax Rules By Age for 2019

Age	Rule
13	Cannot claim a child care credit for children age 13 or older.
17	Cannot claim \$2,000 child tax credit for children age 17 or older.
18	<ul style="list-style-type: none"> Children working for parents' unincorporated business subject to FICA. Generally cannot contribute to an ESA for children age 18 or older. Adoption credit/exclusion generally unavailable for children age 18 or older. Qualifies for saver's credit (if not a dependent or a full-time student). Kiddie tax doesn't apply if child's earned income > than half his support.
19	<ul style="list-style-type: none"> Claiming children who are not full-time students as dependents expires. Kiddie tax generally no longer applies except to full-time students.
21	Children working for parents' unincorporated business subject to FUTA.
24	<ul style="list-style-type: none"> Claiming children who are full-time-students as dependents expires. Can purchase savings bonds and exclude income used for education. Kiddie tax no longer applies.
25	Taxpayers with no children qualify for EIC.
27	Income exclusion for health insurance coverage and self-employed health insurance deduction for coverage of children age 26 and younger expires.
30	Generally must distribute ESA when beneficiary reaches age 30.
50	<ul style="list-style-type: none"> Eligible for catch-up contributions to IRAs, SIMPLE-IRAs, and 401(k), 403(b), and 457 plans. Qualified public safety employees eligible for penalty-free withdrawals from a governmental defined benefit pension plan, if retired.
55	<ul style="list-style-type: none"> Eligible for penalty-free withdrawal from employer retirement plan (but not an IRA) if separated from service. Eligible for catch-up contributions to HSAs.
59½	<ul style="list-style-type: none"> Penalty for early withdrawal from retirement accounts expires. Roth IRA distributions are tax-free (if any Roth held for at least five years).
65	<ul style="list-style-type: none"> Non-itemizers become eligible for a higher standard deduction. Taxpayers with no children no longer qualify for EIC. HSA and MSA withdrawals not used for medical costs are taxed but no longer subject to a 20% penalty. Eligible for credit for the elderly.
70½	<ul style="list-style-type: none"> Contributions no longer allowed to traditional IRAs. RMDs from retirement plans (other than Roth IRAs) must begin.

2020 Quick Tax Method

At the time of publication, the IRS had not released 2020 tax bracket amounts. When they become available, the 2020 Form 1040 Quick Tax Method will be posted to the *Handbook Updates* section of our website: tax.thomsonreuters.com/quickfinder.

ARKANSAS

Website: www.dfa.arkansas.gov

Tax assistance: 501-682-1100



2019 Quick Tax Method—For Taxable Income of:

All Filing Statuses	\$ 0 – 4,599 × 0.0%	minus	\$ 0.00 = Tax
	4,600 – 9,099 × 2.0	minus	91.98 = Tax
	9,100 – 13,699 × 3.0	minus	182.97 = Tax
	13,700 – 22,599 × 3.4	minus	237.77 = Tax
	22,600 – 37,899 × 5.0	minus	421.46 = Tax
	37,900 – 80,800 × 6.0	minus	800.45 = Tax
	80,801 and above × 6.9	minus	1,421.64 = Tax

Note: A bracket adjustment applies to taxpayers with taxable income of \$81,800 or greater.

Filing requirements. Residents must file if:

Marital status is:	Filing Status is:	Gross income of at least:
Single	Single	\$ 12,493
	HOH with ≤ 1 dependent	17,762
	HOH with ≥ 2 dependents	21,173
Married	MFJ with ≤ 1 dependent	\$ 21,068
	MFJ with ≥ 2 dependents	25,356
	MFS	8,099
Widowed in 2017 or 2018 and not remarried in 2019	QW with ≤ 1 dependent	\$ 17,762
	QW with ≥ 2 dependents	21,173

Part-year residents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	\$1 (while an Arkansas resident)

Nonresidents must file if:

Filing status is:	Taxable income is at least:
All Filing Statuses	\$1 of Arkansas-source income

Arkansas form to file:

- Resident: Form AR1000F (Arkansas Individual Income Tax Return).
- Part-year and nonresident: Form AR1000NR (Arkansas Individual Income Tax Return).

Return due date: April 15

Extension form. Form AR1055-IT (Request for Extension of Time for Filing Income Tax Returns).

Allowable extension:

- Arkansas allows an automatic six-month extension if federal Form 4868 is filed or
- File Form AR1055-IT to request a 180-day extension (to October 15).

CALIFORNIA

Website: www.ftb.ca.gov

Tax assistance: 800-852-5711



2019 Quick Tax Method—For Taxable Income of:¹

Single, MFS, RDP ² Filing Separately	\$ 0 – 8,809 × 1.0%	minus	\$ 0.00 = Tax
	8,810 – 20,883 × 2.0	minus	88.09 = Tax
	20,884 – 32,960 × 4.0	minus	505.75 = Tax
	32,961 – 45,753 × 6.0	minus	1,164.95 = Tax
	45,754 – 57,824 × 8.0	minus	2,080.01 = Tax
	57,825 – 295,373 × 9.3	minus	2,831.72 = Tax
	295,374 – 354,445 × 10.3	minus	5,785.45 = Tax
MFJ, QW, RDP ² Filing Jointly	\$ 0 – 17,618 × 1.0%	minus	\$ 0.00 = Tax
	17,619 – 41,766 × 2.0	minus	176.18 = Tax
	41,767 – 65,920 × 4.0	minus	1,011.50 = Tax
	65,921 – 91,506 × 6.0	minus	2,329.90 = Tax
	91,507 – 115,648 × 8.0	minus	4,160.02 = Tax
	115,649 – 590,746 × 9.3	minus	5,663.44 = Tax
	590,747 – 708,890 × 10.3	minus	11,570.90 = Tax
HOH	\$ 0 – 17,629 × 1.0%	minus	\$ 0.00 = Tax
	17,630 – 41,768 × 2.0	minus	176.29 = Tax
	41,769 – 53,843 × 4.0	minus	1,011.65 = Tax
	53,844 – 66,636 × 6.0	minus	2,088.51 = Tax
	66,637 – 78,710 × 8.0	minus	3,421.23 = Tax
	78,711 – 401,705 × 9.3	minus	4,444.46 = Tax
	401,706 – 482,047 × 10.3	minus	8,461.51 = Tax
482,048 – 803,410 × 11.3	minus	13,281.98 = Tax	
803,411 and over × 12.3	minus	21,316.08 = Tax	

¹ Does not include the mental health services tax (1% of taxable income over \$1 million).

² Registered domestic partner.

Filing requirements. Residents, part-year and nonresidents must file if:

Dependents:	0	1	2 or more
<i>California gross income exceeds:</i>			
Single or HOH under age 65	\$18,241	\$30,841	\$40,291
Single or HOH age 65 or over	24,341	33,791	41,351
Married/RDP (joint or separate) both under 65	36,485	49,085	58,535
Married/RDP (joint or separate) one taxpayer age 65 or over	42,585	52,035	59,595
Married/RDP (joint or separate) both 65 or over	48,685	58,135	65,695
QW under age 65	N/A	30,841	40,291
QW 65 or older	N/A	33,791	41,351
<i>or California AGI exceeds:</i>			
Single or HOH under age 65	\$14,593	\$27,193	\$36,643
Single or HOH age 65 or over	20,693	30,143	37,703
Married/RDP (joint or separate) both under 65	29,190	41,790	51,240
Married/RDP (joint or separate) one taxpayer age 65 or over	35,290	44,740	52,300
Married/RDP (joint or separate) both 65 or over	41,390	50,840	58,400
QW under 65	N/A	27,193	36,643
QW 65 or older	N/A	30,143	37,703

Dependent, any filing status, any age: Income exceeds standard deduction.

Taxpayers must also file if they owe any of the following:

- Tax on a lump-sum distribution.
- Tax on a qualified retirement plan, IRA or medical savings account.
- Tax for children under age 19 or full-time students under age 24 who have investment income greater than \$2,200.
- Alternative minimum tax.
- Recapture taxes.
- Deferred tax on certain installment obligations.
- Tax on an accumulation distribution of a trust.

Part-year residents must file if they:

- Receive income from any source while a Delaware resident or
- Receive Delaware-source income while a Delaware nonresident.

Nonresidents must file if they receive Delaware-source income.

Delaware form to file:

- Resident: Form 200-01 (Delaware Individual Resident Income Tax Return). Part-year residents may elect to file either a resident or a nonresident return.
- Part-year resident (unless filing as resident) and nonresident: Form 200-02 (Delaware Individual Non-Resident Income Tax Return).

Return due date: April 30

Extension form. Form 1027 (Application for Automatic Extension of Time to File Delaware Individual Income Tax Return).

Allowable extension. Delaware allows an extension to October 15 by filing Form 1027 (no Delaware extension required if federal extension filed with the IRS and no Delaware tax due).

DISTRICT OF COLUMBIA

Website: <https://otr.cfo.dc.gov>

Tax assistance: 202-727-4829



2019 Quick Tax Method—For Taxable Income of:

All Filing Statuses	\$ 0 – 10,000 × 4.0% minus \$ 0 = Tax
	10,001 – 40,000 × 6.0 minus 200 = Tax
	40,001 – 60,000 × 6.5 minus 400 = Tax
	60,001 – 350,000 × 8.5 minus 1,600 = Tax
	350,001 – 1,000,000 × 8.75 minus 2,475 = Tax
	1,000,001 and over × 8.95 minus 4,475 = Tax

Filing requirements. Individuals must file if:

- Resident of the District of Columbia and required to file a federal income tax return,
- Permanent residence is the District of Columbia for either part of or the full year,
- Lived in the District of Columbia for 183 days or more (even if permanent residence is elsewhere),
- Member of armed forces and home of record is the District of Columbia.

District of Columbia form to file:

- Resident and part-year resident: Form D-40 (Individual Income Tax Return).
- Nonresident: Form D-40B (Nonresident Request for Refund).

Return due date: April 15

Extension form. Form FR-127 (Extension of Time to File Income Tax Returns).

Allowable extension. Six-month extension allowed with timely filed Form FR-127 and estimated payment or if federal extension filed and no tax due.

FLORIDA

Website: <https://floridarevenue.com/taxes>

Tax assistance: 850-488-6800



Filing requirements. There is no personal income tax in Florida.

GEORGIA

Website: <https://dor.georgia.gov>

Tax assistance: 877-423-6711



2019 Quick Tax Method—For Taxable Income of:

Single	\$ 0 – 750 × 1.00% minus \$ 0.00 = Tax
	751 – 2,250 × 2.00 minus 7.50 = Tax
	2,251 – 3,750 × 3.00 minus 30.00 = Tax
	3,751 – 5,250 × 4.00 minus 67.50 = Tax
	5,251 – 7,000 × 5.00 minus 120.00 = Tax
	7,001 and over × 5.75 minus 172.50 = Tax
MFJ, HOH, QW	\$ 0 – 1,000 × 1.00% minus \$ 0.00 = Tax
	1,001 – 3,000 × 2.00 minus 10.00 = Tax
	3,001 – 5,000 × 3.00 minus 40.00 = Tax
	5,001 – 7,000 × 4.00 minus 90.00 = Tax
	7,001 – 10,000 × 5.00 minus 160.00 = Tax
	10,001 and over × 5.75 minus 235.00 = Tax
MFS	\$ 0 – 500 × 1.00% minus \$ 0.00 = Tax
	501 – 1,500 × 2.00 minus 5.00 = Tax
	1,501 – 2,500 × 3.00 minus 20.00 = Tax
	2,501 – 3,500 × 4.00 minus 45.00 = Tax
	3,501 – 5,000 × 5.00 minus 80.00 = Tax
	5,001 and over × 5.75 minus 117.50 = Tax

Filing requirements. Residents must file if:

- They are required to file a federal income tax return,
- They have federally exempt income subject to Georgia income tax or
- Income exceeds standard deduction and personal exemptions.

Filing status:	Age:	Income exceeds: ¹
Single, HOH, QW	Under 65.....	\$ 7,300
	65 or older.....	8,600
MFJ	Both under 65.....	\$ 13,400
	One 65 or older.....	14,700
	Both 65 or older.....	16,000
MFS	Under 65.....	\$ 6,700
	65 or older.....	8,000

¹ Add \$1,300 for each blind taxpayer.
Note: 2019 amounts not available at time of publication. Amounts shown are for 2018.

Part-year residents must file if required to file federal return.

Nonresidents must file if they have Georgia-source income and are required to file a federal return.

Exception: Legal residents of another state are not required to file if their only activity in Georgia is working for an employer where Georgia-source income does not exceed lesser of 5% of total income or \$5,000

Georgia form to file:

- Resident, part-year and nonresident: Form 500 (Individual Income Tax Return).
- Part-year and nonresident: Schedule 3 (Computation of Georgia Taxable Income for Only Part-Year Residents and Nonresidents)—attachment to Form 500.

Return due date: April 15

Extension form. Form IT-303 (Application for Extension of Time for Filing State Income Tax Returns).

Allowable extension. Up to six months if taxpayer either:

- Attaches a copy of the federal extension to Georgia return or
- Files Form IT-303.

Pay tax due electronically via the Georgia Tax Center (<https://gtc.dor.ga.gov>) or with Form IT-560 (Individual and Fiduciary Payment Voucher).

HAWAII

Website: <https://tax.hawaii.gov>

Tax assistance: 800-222-3229, 808-587-4242



2019 Quick Tax Method—For Taxable Income of:

Single, MFS	\$	0 – 2,400	× 1.40%	minus	\$ 0.00 = Tax
		2,401 – 4,800	× 3.20	minus	43.20 = Tax
		4,801 – 9,600	× 5.50	minus	153.60 = Tax
		9,601 – 14,400	× 6.40	minus	240.00 = Tax
		14,401 – 19,200	× 6.80	minus	297.60 = Tax
		19,201 – 24,000	× 7.20	minus	374.40 = Tax
		24,001 – 36,000	× 7.60	minus	470.40 = Tax
		36,001 – 48,000	× 7.90	minus	578.40 = Tax
		48,001 – 150,000	× 8.25	minus	746.40 = Tax
		150,001 – 175,000	× 9.00	minus	1,871.40 = Tax
	175,001 – 200,000	× 10.00	minus	3,621.40 = Tax	
	200,001 and over	× 11.00	minus	5,621.40 = Tax	
MFJ, QW	\$	0 – 4,800	× 1.40%	minus	\$ 0.00 = Tax
		4,801 – 9,600	× 3.20	minus	86.40 = Tax
		9,601 – 19,200	× 5.50	minus	307.20 = Tax
		19,201 – 28,800	× 6.40	minus	480.00 = Tax
		28,801 – 38,400	× 6.80	minus	595.20 = Tax
		38,401 – 48,000	× 7.20	minus	748.80 = Tax
		48,001 – 72,000	× 7.60	minus	940.80 = Tax
		72,001 – 96,000	× 7.90	minus	1,156.80 = Tax
		96,001 – 300,000	× 8.25	minus	1,492.80 = Tax
		300,001 – 350,000	× 9.00	minus	3,742.80 = Tax
	350,001 – 400,000	× 10.00	minus	7,242.80 = Tax	
	400,001 and over	× 11.00	minus	11,242.80 = Tax	
HOH	\$	0 – 3,600	× 1.40%	minus	\$ 0.00 = Tax
		3,601 – 7,200	× 3.20	minus	64.80 = Tax
		7,201 – 14,400	× 5.50	minus	230.40 = Tax
		14,401 – 21,600	× 6.40	minus	360.00 = Tax
		21,601 – 28,800	× 6.80	minus	446.40 = Tax
		28,801 – 36,000	× 7.20	minus	561.60 = Tax
		36,001 – 54,000	× 7.60	minus	705.60 = Tax
		54,001 – 72,000	× 7.90	minus	867.60 = Tax
		72,001 – 225,000	× 8.25	minus	1,119.60 = Tax
		225,001 – 262,500	× 9.00	minus	2,807.10 = Tax
	262,501 – 300,000	× 10.00	minus	5,432.10 = Tax	
	300,001 and over	× 11.00	minus	8,432.10 = Tax	

Filing requirements. Residents, part-year and nonresidents must file if:

- They are doing business in Hawaii (regardless of income) or
- Their gross income subject to Hawaii tax exceeds the amounts in the following table.

Filing status:	Age:	Hawaii gross income exceeds:
Single, MFS	Under 65.....	\$ 3,344
	65 or older	4,488
MFJ	Both under 65	\$ 6,688
	One 65 or older.....	7,832
	Both 65 or older.....	8,976
HOH	Under 65.....	\$ 4,356
	65 or older	5,500
QW	Under 65.....	\$ 5,544
	65 or older	6,688
Dependent on another return	Amount of dependent's standard deduction	
Nonresident alien	Under 65.....	\$ 1,144
	65 or older	2,288

Nonresidents must prorate the thresholds above by a ratio of Hawaii AGI to total AGI.

Individuals must also file if they owe any of the following taxes:

- Distribution from an individual housing account (Form N-2).
- Tax from the sale of a home (Form N-103).
- Tax on lump-sum distributions (Form N-152).
- Recapture of capital goods excise tax credit (Form N-312).
- Recapture of tax credit for flood victims (Form N-338).
- Recapture of important agricultural land qualified agricultural cost tax credit (Form N-344).
- Recapture of Capital Infrastructure Tax Credit (Form N-348).
- Tax on accumulation distribution of trusts (Form N-405).
- Recapture of low-income housing tax credit (Form N-586).
- Tax from parent's election to report child's interest and dividends (Form N-814).

Hawaii form to file:

- Resident: Form N-11 (Individual Income Tax Return—Resident).
- Part-year and nonresident: Form N-15 (Individual Income Tax Return—Nonresident and Part-Year Resident).

Return due date: April 20

Allowable extension. Hawaii allows an automatic six-month extension without written request if all tax paid by original return due date. Use Form N-101A (Application for Automatic Extension of Time to File Hawaii Individual Income Tax Return) to make a payment.

IDAHO

Website: <https://tax.idaho.gov>

Tax assistance: 800-972-7660, 208-334-7660 (Boise)



2019 Quick Tax Method—For Taxable Income of:

Single, MFS	\$	0 – 1,540	× 1.125%	minus	\$ 0.00 = Tax
		1,541 – 3,080	× 3.125	minus	30.80 = Tax
		3,081 – 4,621	× 3.625	minus	46.20 = Tax
		4,622 – 6,161	× 4.625	minus	92.41 = Tax
		6,162 – 7,702	× 5.625	minus	154.02 = Tax
		7,703 – 11,553	× 6.625	minus	231.04 = Tax
		11,554 and over	× 6.925	minus	265.70 = Tax
MFJ, HOH, QW	\$	0 – 3,081	× 1.125%	minus	\$ 0.00 = Tax
		3,082 – 6,161	× 3.125	minus	61.62 = Tax
		6,162 – 9,243	× 3.625	minus	92.43 = Tax
		9,244 – 12,323	× 4.625	minus	184.86 = Tax
		12,324 – 15,405	× 5.625	minus	308.09 = Tax
		15,406 – 23,107	× 6.625	minus	462.14 = Tax
		23,108 and over	× 6.925	minus	531.46 = Tax

2019 Quick Tax Method—For Taxable Income of:				
All Filing Statuses	\$ 0 –	1,638 × 0.33%	minus	\$ 0.00 = Tax
	1,639 –	3,276 × 0.67	minus	5.57 = Tax
	3,277 –	6,552 × 2.25	minus	57.33 = Tax
	6,553 –	14,742 × 4.14	minus	181.16 = Tax
	14,743 –	24,570 × 5.63	minus	400.82 = Tax
	24,571 –	32,760 × 5.96	minus	481.90 = Tax
	32,761 –	49,140 × 6.25	minus	576.90 = Tax
	49,141 –	73,710 × 7.44	minus	1,161.67 = Tax
	73,711 and over × 8.53	minus	1,965.11 = Tax	

Filing requirements. Residents must file if:

Filing status:	Net income is:
Single.....	More than \$ 9,000
Single (65 or older).....	More than 24,000
Other than single.....	More than 13,500
Other than single (one or both spouses 65 or older).....	More than 32,000
Dependent on another person's return.....	\$5,000 or more

Note: Net income includes income from both spouses and any pension/retirement income exclusion and any social security phase-out amount must be added back.

Residents must also file if they are:

- In the military service with Iowa legal residence or
- Subject to Iowa lump-sum tax.

Nonresidents and part-year residents must file if they have Iowa-source net income of at least \$1,000 (unless their all-source net income is below the income thresholds above) or are subject to Iowa lump-sum tax or Iowa alternative minimum tax.

Iowa form to file:

- Resident, part-year and nonresident: Form IA 1040 (Iowa Individual Income Tax Form).
- Part-year and nonresident: Form IA 126 (Iowa Nonresident and Part-Year Resident Credit Schedule)—attachment to IA 1040.

Return due date: April 30

Allowable extension. Automatic six-month extension without written request if at least 90% of tax liability is paid. Use IA 1040V (Individual Income Tax Payment Voucher) to make a tax payment.

Reciprocity agreements: Illinois. Iowa residents with Illinois wage income are only taxed in Iowa. Illinois residents with Iowa wage income are only taxed in Illinois.

KANSAS

Website: www.ksrevenue.org

Tax assistance: 785-368-8222

2019 Quick Tax Method—For Taxable Income of:				
MFJ	\$ 5,001 –	30,000 × 3.10%	minus	\$ 0.00 = Tax
	30,001 –	60,000 × 5.25	minus	645.00 = Tax
	60,001 and over × 5.70	minus	915.00 = Tax	
Single, HOH, MFS	\$ 2,501 –	15,000 × 3.10%	minus	\$ 0.00 = Tax
	15,001 –	30,000 × 5.25	minus	322.50 = Tax
	30,001 and over × 5.70	minus	457.50 = Tax	

Filing requirements. Residents and part-year residents must file if they are required to file a federal income tax return or Kansas AGI exceeds Kansas standard deduction and exemption allowance.

Residents not required to file a federal return must file based on the following table:

Filing status:	Age:	Gross income of at least:
Single	Under 65.....	\$ 5,250
	65 or older or blind.....	6,100
	65 or older and blind.....	6,950
MFJ	Under 65 (both spouses).....	\$ 12,000
	65 or older or blind (one spouse).....	12,700
	65 or older or blind (both spouses).....	13,400
	65 or older and blind (one spouse).....	13,400
	65 or older or blind (one spouse) and 65 or older and blind (other spouse).....	14,100
	65 or older and blind (both spouses).....	14,800
HOH	Under 65.....	\$ 10,000
	65 or older or blind.....	10,850
	65 or older and blind.....	11,700
MFS	Under 65.....	\$ 6,000
	65 or older or blind.....	6,700
	65 or older and blind.....	7,400

Minor dependents must file if gross income exceeds the greater of \$500 or earned income up to \$3,000.

Nonresidents must file if they receive any Kansas-source income.

Kansas form to file:

- Resident, part-year and nonresident: Form K-40 (Kansas Individual Income Tax).
- Part-year and nonresident: Schedule S (Kansas Supplemental Schedule) Part B (Income Allocation for Nonresidents and Part-Year Residents)—attachment to Form K-40.

Return due date: April 15

Allowable extension. Kansas allows a six-month automatic extension if federal Form 4868 is filed with the IRS. Use Form K-40V (Individual Income Tax Payment Voucher) to make an extension payment of Kansas income tax. No extension is required if receiving Kansas refund.

KENTUCKY

Website: <https://revenue.ky.gov>

Tax assistance: 502-564-4581



2019 Tax Rate	
Income tax rate.....	5%

Filing requirements. Resident must file if:

- Modified gross income (MGI) exceeds the amount in *Chart A* on Page 2-9 and Kentucky AGI exceeds the amount in *Chart B* on Page 2-10.
- If the filing requirements above are not met, a return must be filed to claim a refund of the Kentucky taxes withheld.

Chart A	
Family Size	Modified gross income (MGI) is greater than:
One.....	\$ 12,490
Two.....	16,910
Three.....	21,330
Four or more.....	25,750

Note: 2019 amounts not available at time of publication. Amounts shown are for 2018.

MGI: Greater of federal AGI plus tax-exempt interest from municipal bonds (non-Kentucky) plus any lump-sum pension distribution not included in federal AGI or Kentucky AGI plus any lump-sum pension distribution not included in federal AGI.

Chart B		
Filing status:	Age:	Kentucky AGI of at least:
Single	Under 65.....	\$ 2,590
	65 or over or blind.....	3,390
	65 or over and blind.....	4,190
Husband and wife	Under age 65 (both spouses).....	\$ 2,590
	65 or over (one spouse).....	3,390
	65 or over (both spouses).....	4,190

Note: 2019 amounts not available at time of publication. Amounts shown are for 2018.

Residents must also file if they receive gross receipts from self-employment in excess of MGI for their family size in *Chart A* on Page 2-9.

Nonresidents and part-year residents must file if they receive:

- Income from Kentucky sources and gross income from all sources in excess of MGI for their family size listed in *Chart A* on Page 2-9 or
- Kentucky gross receipts from self-employment exceed MGI for their family size listed in *Chart A* on Page 2-9.

Kentucky form to file:

- Resident: Form 740 (Kentucky Individual Income Tax Return).
- Part-year and nonresident: Form 740-NP (Kentucky Individual Income Tax Return: Nonresident or Part-Year Resident).

Return due date: April 15

Extension form. Form 740EXT (Application for Extension of Time to File).

Allowable extension. Kentucky allows a six-month extension and accepts a copy (attached to the return) of either the federal extension or a separately filed Kentucky extension (Form 740EXT). Use Form 740EXT or a copy of Form 4868 to remit any tax due.

Reciprocity agreements: Illinois, Indiana, Michigan, Ohio, Virginia, West Virginia and Wisconsin residents are not required to file a Kentucky return if the only Kentucky source income is wages. Check instructions for specific types of income that are covered by reciprocity for each state. Taxpayers who qualify may file Form 740-NP-R (Kentucky Income Tax Return, Nonresident—Reciprocal State) to claim a refund of Kentucky income taxes withheld.

LOUISIANA

Website: <https://revenue.louisiana.gov/>

Tax assistance: 855-307-3893



2019 Quick Tax Method—For Taxable Income of:					
Single, MFS, HOH	\$ 0 – 12,500	× 2%	minus \$ 0	= Tax	
	12,501 – 50,000	× 4	minus 250	= Tax	
	50,001 and over	× 6	minus 1,250	= Tax	
MFJ, QW	\$ 0 – 25,000	× 2%	minus \$ 0	= Tax	
	25,001 – 100,000	× 4	minus 500	= Tax	
	100,001 and over	× 6	minus 2,500	= Tax	

The tax tables also take into consideration a combined personal exemption and standard deduction as follows:

2019 Exemptions and Standard Deductions	
Single, MFS.....	\$ 4,500
MFJ, HOH, or QW.....	9,000
<i>The tables also include an exemption for each of the following:</i>	
Taxpayer.....	\$ 1,000
Spouse.....	1,000
Each dependent.....	1,000
Each taxpayer and/or spouse age 65 or older.....	1,000
Each taxpayer and/or spouse who is blind.....	1,000
Each resident taxpayer who is a qualifying widow.....	1,000

Filing requirements:

- Residents must file if required to file a federal income tax return.
- Part-year and nonresidents must file if they have any Louisiana-source income and are required to file a federal income tax return.

Louisiana form to file:

- Resident: Form IT-540 (Louisiana Resident).
- Part-year resident and nonresident (except professional athletes): Form IT-540B (Louisiana Nonresident and Part-Year Resident).
- Nonresident professional athletes: Form IT-540B-NRA (Louisiana Nonresident Professional Athlete Individual Income Tax Return).

Return due date: May 15

Allowable extension. Louisiana allows a six-month extension by requesting online. Pay any tax due with Form R-2868V (Electronically Filed Extension Payment Voucher) if payment not made electronically. A federal extension is also accepted by attaching it to Form R-2867 (Transmittal of Federal Extension Request for Louisiana Individual Income Tax Return).

MAINE

Website: www.maine.gov/revenue

Tax assistance: 207-626-8475



2019 Quick Tax Method—For Taxable Income of:					
Single, MFS	\$ 0 – 21,849	× 5.80%	minus \$ 0.00	= Tax	
	21,850 – 51,699	× 6.75	minus 207.57	= Tax	
	51,700 and over	× 7.15	minus 414.36	= Tax	
HOH	\$ 0 – 32,749	× 5.80%	minus \$ 0.00	= Tax	
	32,750 – 77,549	× 6.75	minus 311.12	= Tax	
	77,550 and over	× 7.15	minus 621.31	= Tax	
MFJ or QW	\$ 0 – 43,699	× 5.80%	minus \$ 0.00	= Tax	
	43,700 – 103,399	× 6.75	minus 415.14	= Tax	
	103,400 and over	× 7.15	minus 828.74	= Tax	

Filing requirements. Residents must file if they are:

- Required to file a federal income tax return or
- Subject to Maine income tax resulting in a Maine income tax liability.

Exception: Residents are not required to file if:

- 1) The taxpayer has no addition income modifications reportable on Form 1040ME, Schedule 1, and
- 2) Maine taxable income is less than the sum of the taxpayer's standard deduction (\$12,200 single, \$24,400 MFJ, \$12,200 MFS and \$18,350 HOH) plus personal exemption amount (\$4,200 per person). Additional standard deduction amounts for age and/or blindness apply (\$1,300 per spouse if MFJ or MFS and \$1,650 if unmarried).

Part-year residents must file if they have income subject to Maine income tax resulting in a Maine income tax liability.

Nonresidents and *safe harbor* residents must file if they have Maine-source income resulting in a Maine income tax liability.

Michigan form to file:

- Resident, part-year and nonresident: Form MI-1040 (Michigan Individual Income Tax Return).
- Part-year and nonresident: Schedule NR (Nonresident and Part-Year Resident Schedule)—attachment to Form MI-1040.

Return due date: April 15

Extension form. Form 4 (Application for Extension of Time to File Michigan Tax Returns).

Allowable extension. Michigan allows a six-month extension if a federal extension was requested. If federal return was not extended, Michigan will grant a 180-day extension. File Form 4 only if submitting a payment of Michigan tax due.

Reciprocity agreements. Illinois, Indiana, Kentucky, Minnesota, Ohio and Wisconsin residents are only required to file MI-1040 if Michigan income from sources other than wages is received or to request a refund of Michigan withholding.

MINNESOTA

Website: www.revenue.state.mn.us

Tax assistance: 651-296-3781, MN 800-652-9094

2019 Quick Tax Method—For Taxable Income of:			
Single	\$ 0 – 26,520	× 5.35%	minus \$ 0.00 = Tax
	26,521 – 87,110	× 6.80	minus 384.54 = Tax
	87,111 – 161,720	× 7.85	minus 1,299.20 = Tax
	161,721 and over	× 9.85	minus 4,533.60 = Tax
MFJ or QW	\$ 0 – 38,770	× 5.35%	minus \$ 0.00 = Tax
	38,771 – 154,020	× 6.80	minus 562.17 = Tax
	154,021 – 269,010	× 7.85	minus 2,179.38 = Tax
	269,011 and over	× 9.85	minus 7,559.58 = Tax
HOH	\$ 0 – 32,650	× 5.35%	minus \$ 0.00 = Tax
	32,651 – 131,190	× 6.80	minus 473.43 = Tax
	131,191 – 214,980	× 7.85	minus 1,850.92 = Tax
	214,981 and over	× 9.85	minus 6,150.52 = Tax
MFS	\$ 0 – 19,385	× 5.35%	minus \$ 0.00 = Tax
	19,386 – 77,010	× 6.80	minus 281.08 = Tax
	77,011 – 134,505	× 7.85	minus 1,089.69 = Tax
	134,506 and over	× 9.85	minus 3,779.79 = Tax

Filing requirements. Residents must file if their income exceeds the following amounts: Single **and MFS—\$12,200; MFS—\$5; MFJ—\$24,400; HOH—\$18,350.** Add **\$1,650** if age 65 or older or blind (\$1,300 if MFJ).

Part-year and nonresidents must file if Minnesota gross income is **\$12,200** or more.

~~Note: 2019 amounts not available at time of publication. Amounts shown are for 2018.~~

Minnesota form to file:

- Resident, part-year and nonresident: Form M1 (Minnesota Individual Income Tax).
- Part-year and nonresident: Schedule M1NR (Nonresidents/Part-Year Residents)—attachment to Form M1.

Return due date: April 15

Allowable extension. If no tax is due, an automatic six-month extension is granted. If tax is due, it must be paid using the e-Services Payment System or by credit/debit card or check/money order (using a payment voucher created on e-Services).

Reciprocity agreements. Michigan and North Dakota. Full-year residents of these states who returned to their home state at least once a month and whose only Minnesota income was from performing personal services are not subject to Minnesota tax.

MISSISSIPPI

Website: www.dor.ms.gov

Tax assistance: 601-923-7700

2019 Quick Tax Method—For Taxable Income of:			
All Filing Statuses	\$ 0 – 2,000	× 0%	minus \$ 0 = Tax
	2,001 – 5,000	× 3	minus 60 = Tax
	5,001 – 10,000	× 4	minus 110 = Tax
	10,001 and over	× 5	minus 210 = Tax

Note: Married individuals filing a combined return apply the tax rate schedule separately and combine the separate tax amounts to calculate total income tax.

Filing requirements. Residents must file if:

Filing status:	Gross income exceeds:
Single.....	\$8,300 plus \$1,500 for each dependent.
Married	\$16,600 (both spouses) plus \$1,500 per dependent.

Part-year and nonresidents must file if they receive income taxed by Mississippi. Part-year residents are taxed on income earned while a resident of Mississippi. Nonresidents are taxed on income earned from Mississippi sources (other than gambling income).

Mississippi form to file:

- Resident: Form 80-105 (Mississippi Resident Individual Income Tax Return).
- Part-year and nonresident: Form 80-205 (Mississippi Non-Resident/Part-Year Resident Individual Income Tax Return).

Return due date: April 15

Allowable extension. Mississippi allows an automatic six-month extension if a federal extension is filed. If tax is due, it must be paid by the original return due date using Form 80-106 (Individual/Fiduciary Income Tax Payment Voucher).

MISSOURI

Website: <https://dor.mo.gov>

Tax assistance: 573-751-3505

2019 Quick Tax Method—For Taxable Income of:			
All Filing Statuses	\$ 0 – 104	× 0.0%	minus \$ 0.00 = Tax
	105 – 1,053	× 1.5	minus 0.00 = Tax
	1,054 – 2,106	× 2.0	minus 5.27 = Tax
	2,107 – 3,159	× 2.5	minus 15.80 = Tax
	3,160 – 4,212	× 3.0	minus 31.59 = Tax
	4,213 – 5,265	× 3.5	minus 52.65 = Tax
	5,266 – 6,318	× 4.0	minus 78.98 = Tax
	6,319 – 7,371	× 4.5	minus 110.57 = Tax
	7,372 – 8,424	× 5.0	minus 147.42 = Tax
	8,425 and over	× 5.4	minus 181.12 = Tax

Note: If filing a combined return and both persons have income, apply the tax rate schedule separately and combine the separate tax amounts to calculate total income tax.

Filing requirements. Taxpayers must file a Missouri return if required to file a federal income tax return unless the taxpayer:

- Is a resident with less than \$1,200 of Missouri AGI,
- Is a nonresident with less than \$600 of Missouri income or
- Has Missouri AGI that is less than his standard deduction.

2019 NY State Quick Tax Method—For Taxable Income of:					
Single, MFS	\$ 0 – 8,500	× 4.00%	minus \$ 0	= Tax	
	8,501 – 11,700	× 4.50	minus 43	= Tax	
	11,701 – 13,900	× 5.25	minus 130	= Tax	
	13,901 – 21,400	× 5.90	minus 221	= Tax	
	21,401 – 80,650	× 6.21	minus 287	= Tax	
	80,651 – 215,400	× 6.49	minus 513	= Tax	
	215,401 – 1,077,550	× 6.85	minus 1,288	= Tax	
1,077,551 and over	× 8.82	minus 22,516	= Tax		
MFJ, QW	\$ 0 – 17,150	× 4.00%	minus \$ 0	= Tax	
	17,151 – 23,600	× 4.50	minus 86	= Tax	
	23,601 – 27,900	× 5.25	minus 263	= Tax	
	27,901 – 43,000	× 5.90	minus 444	= Tax	
	43,001 – 161,550	× 6.21	minus 577	= Tax	
	161,551 – 323,200	× 6.49	minus 1,030	= Tax	
	323,201 – 2,155,350	× 6.85	minus 2,193	= Tax	
2,155,351 and over	× 8.82	minus 44,654	= Tax		
HOH	\$ 0 – 12,800	× 4.00%	minus \$ 0	= Tax	
	12,801 – 17,650	× 4.50	minus 64	= Tax	
	17,651 – 20,900	× 5.25	minus 196	= Tax	
	20,901 – 32,200	× 5.90	minus 332	= Tax	
	32,201 – 107,650	× 6.21	minus 432	= Tax	
	107,651 – 269,300	× 6.49	minus 733	= Tax	
	269,301 – 1,616,450	× 6.85	minus 1,703	= Tax	
1,616,451 and over	× 8.82	minus 33,547	= Tax		

Note: If NY AGI is more than \$107,650, the graduated tax rates above are phased out.

2019 NYC Quick Tax Method—for Taxable Income of:					
Single, MFS	\$ 0 – 12,000	× 3.078%	minus \$ 0	= Tax	
	12,001 – 25,000	× 3.762	minus 82	= Tax	
	25,001 – 50,000	× 3.819	minus 96	= Tax	
	50,001 and over	× 3.876	minus 125	= Tax	
MFJ, QW	\$ 0 – 21,600	× 3.078%	minus \$ 0	= Tax	
	21,601 – 45,000	× 3.762	minus 148	= Tax	
	45,001 – 90,000	× 3.819	minus 173	= Tax	
	90,001 and over	× 3.876	minus 225	= Tax	
HOH	\$ 0 – 14,400	× 3.078%	minus \$ 0	= Tax	
	14,401 – 30,000	× 3.762	minus 98	= Tax	
	30,001 – 60,000	× 3.819	minus 116	= Tax	
	60,001 and over	× 3.876	minus 150	= Tax	

Filing requirements. Residents must file if they are:

- Required to file a federal return or
- Not required to file a federal return, but:

Federal filing status would have been:	Federal AGI plus New York additions exceeds:
Single and can be claimed as dependent on another person's return	\$ 3,100
All others.....	4,000

- To claim a refund of state or city income taxes withheld from taxpayer's pay.
- To claim any of the refundable or carryover credits available.

Part-year and nonresidents are required to file if:

Federal filing status:	Received New York-source income and New York AGI exceeds:
Single and can be claimed as dependent on another person's return	\$ 3,100
Single and cannot be claimed as dependent on another person's return	8,000
MFJ.....	16,050
MFS.....	8,000
HOH.....	11,200
QW.....	16,050

Part-year and nonresidents are also required to file if any of the following apply:

- They are subject to separate tax on lump-sum distributions derived from or connected to New York sources (part-year residents).
- They incurred a New York NOL without incurring a similar federal NOL.
- To claim a refund of state or city income taxes withheld from taxpayer's pay.
- To claim any of the refundable or carryover credits available.

New York form to file:

- Resident: Form IT-201 (Resident Income Tax Return).
- Part-year and nonresident: Form IT-203 (Nonresident and Part-Year Resident Income Tax Return).

Return due date: April 15

Extension form. Form IT-370 (Application for Automatic Six-Month Extension of Time to File for Individuals).

Allowable extension. To request an automatic six-month extension, file Form IT-370 and remit any tax due. A copy of the federal extension is not accepted.

NORTH CAROLINA

Website: www.ncdor.gov

Tax assistance: 877-252-3052



2019 Tax Rate	
Income tax rate.....	5.25%

Filing requirements. Every resident whose income for the year exceeds the amount for his filing status as shown in the following chart must file a return:

Filing status	A return is required if federal gross income exceeds
Single.....	\$ 10,000
MFJ.....	20,000
MFS if spouse does not claim itemized deductions.....	10,000
MFS if spouse claims itemized deductions.....	0
HOH.....	15,000
QW.....	20,000
Nonresident alien.....	0

An individual not required to file a federal income tax return but who has gross income from all sources—both inside and outside of North Carolina—that equals or exceeds the amount for his filing status shown in the chart above is required to file a North Carolina return. He must complete a federal return and attach it to his North

Carolina income tax return to show how his adjusted gross income and deductions were determined.

A part-year resident must file if his total income for the tax year exceeds the amount for his filing status shown in the chart above and he:

- Received income while a resident of North Carolina or
- Received income while a nonresident that is:
 - Attributable to ownership of any interest in real or tangible personal property in North Carolina;
 - Derived from a business, trade, profession or occupation carried on within North Carolina or
 - Derived from gambling activities in North Carolina.

A nonresident must file if his total income from all sources—both inside and outside of North Carolina—exceeds the amount for his filing status as shown in the chart above and he received income for the tax year from North Carolina sources that was:

- Attributable to ownership of any interest in real or tangible personal property in North Carolina;
- Derived from a business, trade, profession, or occupation carried on in North Carolina or
- Derived from gambling activities in North Carolina.

North Carolina form to file:

- Resident, part-year and nonresident: Form D-400 (Individual Income Tax Return).
- Part-year and nonresidents: D-400, page 4, D-400 Schedule S (Supplement Schedule); Part D (Computation of North Carolina Taxable Income for Part-Year Residents and Nonresidents).

Return due date: April 15

Extension form. Form D-410 (Application for Extension for Filing Individual Income Tax Return).

Allowable extension. North Carolina allows a six-month extension if Form D-410 is filed by original due date of tax return. North Carolina does *not* accept a federal extension.

NORTH DAKOTA

Website: www.nd.gov/tax

Tax assistance: 701-328-1247; 877-328-7088



2019 Quick Tax Method—For Taxable Income of:					
Single	\$ 0 – 39,450	× 1.10%	minus	\$ 0.00	= Tax
	39,451 – 95,500	× 2.04	minus	370.83	= Tax
	95,501 – 199,250	× 2.27	minus	590.48	= Tax
	199,251 – 433,200	× 2.64	minus	1,327.71	= Tax
	433,200 and over	× 2.90	minus	2,454.03	= Tax
MFJ, QW	\$ 0 – 65,900	× 1.10%	minus	\$ 0.00	= Tax
	65,901 – 159,200	× 2.04	minus	619.46	= Tax
	159,201 – 242,550	× 2.27	minus	985.62	= Tax
	242,551 – 433,200	× 2.64	minus	1,883.06	= Tax
	433,201 and over	× 2.90	minus	3,009.38	= Tax
MFS	\$ 0 – 32,950	× 1.10%	minus	\$ 0.00	= Tax
	32,951 – 79,600	× 2.04	minus	309.73	= Tax
	79,601 – 121,275	× 2.27	minus	492.81	= Tax
	121,276 – 216,600	× 2.64	minus	941.53	= Tax
	216,601 and over	× 2.90	minus	1,504.69	= Tax
HOH	\$ 0 – 52,850	× 1.10%	minus	\$ 0.00	= Tax
	52,851 – 136,450	× 2.04	minus	496.79	= Tax
	136,451 – 220,900	× 2.27	minus	810.63	= Tax
	220,901 – 433,200	× 2.64	minus	1,627.96	= Tax
	433,201 and over	× 2.90	minus	2,754.28	= Tax

Filing requirements. Residents must file if they are required to file a federal income tax return.

Nonresidents must file if they are required to file a federal return and received gross income from North Dakota sources. Part-year residents must file if they are required to file a federal return and received income from any source while a resident or received North Dakota-source income while a nonresident.

North Dakota form to file:

- Resident, part-year and nonresident: Form ND-1 (Individual Income Tax Return).
- Part-year and nonresident: Schedule ND-1NR (Tax Calculation for Nonresidents and Part-Year Residents)—attachment to Form ND-1.

Return due date: April 15

Extension form. Form 101 (Application for Extension of Time to File a North Dakota Tax Return).

Allowable extension: An extension of time to file a taxpayer's federal return is recognized for North Dakota purposes. If there is no federal extension, file Form 101 to request an extension of time to file (Form 101 is not an automatic extension). Use Form ND-1EXT (Individual Extension Payment Voucher) to make a payment.

Reciprocity agreements. Minnesota and Montana. Minnesota residents are not required to file a North Dakota return if only North Dakota source of income is compensation and the taxpayer maintains a home in Minnesota and returns to the home at least once each month. Montana residents are not required to file a North Dakota return if only North Dakota source of income is wages.

OHIO

Website: www.tax.ohio.gov

Tax assistance: 800-282-1780



2019 Quick Tax Method—For Taxable Income of:					
All Filing Statuses	\$ 0 – 21,750	× 0.000%	minus	\$ 0.00	= Tax
	10,851 – 16,300	× 1.980	minus	135.75	= Tax
	16,301 – 21,750	× 2.476	minus	216.60	= Tax
	21,751 – 43,450	× 2.850	minus	309.41	= Tax
	43,451 – 86,900	× 3.326	minus	516.23	= Tax
	86,901 – 108,700	× 3.802	minus	929.87	= Tax
	108,701 – 217,400	× 4.413	minus	1,594.03	= Tax
	217,401 and over	× 4.797	minus	2,428.84	= Tax

Filing requirements. Residents and part-year residents are required to file unless one of the following exceptions applies:

- Ohio AGI is less than or equal to \$0.
- The total of the taxpayer's senior citizen credit, lump-sum distribution credit and joint filing credit is equal to or exceeds his income tax liability and he is not liable for school district income tax.
- The taxpayer's exemption amount is the same as or more than his Ohio AGI.

Nonresidents are required to file if they have Ohio-sourced income.

Ohio form to file:

- Resident, part-year and nonresident: Form IT 1040 (Individual Income Tax Return).
- Part-year and nonresidents: Schedule D (Nonresident/Part-Year Resident Credit) (Form IT 1040, page 4).

Filing requirements. Residents and part-year residents are required to file if:

Filing status:	Virginia AGI is at least:
Single or MFS.....	\$ 11,950
MFJ	23,900

Nonresidents are required to file if they receive any income from Virginia sources other than interest from personal savings accounts, interest or dividends from an individual stock market investment, or pension payments from a Virginia payor.

Virginia form to file:

- Resident: Form 760 (Virginia Resident Individual Income Tax Return).
- Part-year resident: Form 760PY (Virginia Part-Year Resident Income Tax Return).
- Nonresident: Form 763 (Virginia Nonresident Income Tax Return).

Return due date: May 1

Allowable extension. Virginia allows an automatic six-month extension of time to file. Ninety percent of the tax liability must be paid by the original due date for filing the return to avoid penalty. No application for extension is required. To make a payment of tentative tax by the original due date, use voucher Form 760IP.

Reciprocity agreements. The District of Columbia, Kentucky, Maryland, Pennsylvania and West Virginia residents may be exempt from filing if their only source of Virginia income is wages subject to income tax by the resident state (or district). For residents of the District of Columbia and Kentucky, the exemption applies if the individual had no actual place of abode in Virginia during the year. The exemption applies to Maryland, Pennsylvania and West Virginia residents if they are present in Virginia for 183 days or less during the year.

WASHINGTON

Website: <https://dor.wa.gov>

Tax assistance: 360-705-6705

Filing requirements. Washington does not have a personal income tax.



WEST VIRGINIA

Website: <https://revenue.wv.gov>

Tax assistance: 800-982-8297, 304-558-3333



2019 Quick Tax Method—For Taxable Income of:	
MFJ, Single, HOH, QW	$\$ 0 - 9,999 \times 3.0\% \text{ minus } \$ 0.00 = \text{Tax}$ $10,000 - 24,999 \times 4.0 \text{ minus } 100.00 = \text{Tax}$ $25,000 - 39,999 \times 4.5 \text{ minus } 225.00 = \text{Tax}$ $40,000 - 59,999 \times 6.0 \text{ minus } 825.00 = \text{Tax}$ $60,000 \text{ and over } \times 6.5 \text{ minus } 1,125.00 = \text{Tax}$
MFS	$\$ 0 - 4,999 \times 3.0\% \text{ minus } \$ 0.00 = \text{Tax}$ $5,000 - 12,499 \times 4.0 \text{ minus } 50.00 = \text{Tax}$ $12,500 - 19,999 \times 4.5 \text{ minus } 112.50 = \text{Tax}$ $20,000 - 29,999 \times 6.0 \text{ minus } 412.50 = \text{Tax}$ $30,000 \text{ and over } \times 6.5 \text{ minus } 562.50 = \text{Tax}$

Filing requirements. Residents and part-year residents are required to file if their West Virginia AGI is greater than the exemption allowance (\$2,000 per exemption or \$500 if zero exemptions were claimed) or to claim a senior citizen's tax credit.

Exception: Taxpayers age 65 or older if income is less than exemption allowance plus senior citizen modification of up to \$8,000 do not have to file.

Nonresidents are required to file if their federal AGI includes any West Virginia-source income.

West Virginia form to file:

- Resident, part-year and nonresident: Form IT-140 (West Virginia Personal Income Tax Return).
- Part-year and nonresident: Schedule A (Nonresidents/Part-Year Residents Schedule of Income)—attachment to Form IT-140.

Return due date: April 15

Extension form. Schedule L (Application for Extension of Time to File).

Allowable extension. West Virginia allows up to a six-month extension if tax liability is paid and the taxpayer either:

- Attaches a copy of federal Form 4868 or
- Files Schedule L if tax owed or federal Form 4868 not filed.

Reciprocity agreements. Kentucky, Maryland, Ohio, Pennsylvania and Virginia residents may file Form IT-140NRS (Special Nonresident Income Tax Return) to claim a refund if the only West Virginia income is from wages and salaries.

Note: Pennsylvania and Virginia residents qualify only if they did not spend more than 183 days within West Virginia in 2019.

WISCONSIN

Website: <https://revenue.wi.gov>

Tax assistance: 608-266-2486



2019 Quick Tax Method—For Taxable Income of:	
Single, HOH	$\$ 0 - 11,760 \times 4.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $11,761 - 23,520 \times 5.84 \text{ minus } 216.38 = \text{Tax}$ $23,521 - 258,950 \times 6.27 \text{ minus } 317.52 = \text{Tax}$ $258,951 \text{ and over } \times 7.65 \text{ minus } 3,891.03 = \text{Tax}$
MFJ	$\$ 0 - 15,680 \times 4.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $15,681 - 31,360 \times 5.84 \text{ minus } 288.51 = \text{Tax}$ $31,361 - 345,270 \times 6.27 \text{ minus } 423.36 = \text{Tax}$ $345,271 \text{ and over } \times 7.65 \text{ minus } 5,188.09 = \text{Tax}$
MFS	$\$ 0 - 7,840 \times 4.00\% \text{ minus } \$ 0.00 = \text{Tax}$ $7,841 - 15,680 \times 5.84 \text{ minus } 144.26 = \text{Tax}$ $15,681 - 172,630 \times 6.27 \text{ minus } 211.68 = \text{Tax}$ $172,631 \text{ and over } \times 7.65 \text{ minus } 2,593.97 = \text{Tax}$

Filing requirements. Residents must file if:

Filing status:	Age:	Gross income is at least:
Single	Under 65.....	\$ 11,560
	65 or older.....	11,810
MFJ	Under 65 (both spouses).....	\$ 21,510
	65 or older (one spouse).....	21,760
	65 or older (both spouses).....	22,010
MFS	Under 65.....	\$ 10,250
	65 or older.....	10,500
HOH	Under 65.....	\$ 14,730
	65 or older.....	14,980

Note: 2019 amounts not available at time of publication. Amounts shown are for 2018.

Quick Facts Data Sheet (Continued)

	2020	2019	2018	2017	2016
Business Deductions					
Section 179 deduction:					
Overall limit	\$ 1,040,000	\$ 1,020,000	\$ 1,000,000	\$ 510,000	\$ 500,000
SUV limit (per vehicle)	25,900	25,500	25,000	25,000	25,000
Qualifying property phase-out threshold	2,590,000	2,550,000	2,500,000	2,030,000	2,010,000
Depreciation limit—autos (1st year)	^{3,8}	10,100 ³	10,000 ³	3,160 ³	3,160 ³
Depreciation limit—trucks and vans (1st year)	^{3,8}	10,100 ³	10,000 ³	3,560 ³	3,560 ³
Standard mileage allowances:					
Business	57.5¢	58¢	54.5¢	53.5¢	54¢
Charity work	14¢	14¢	14¢	14¢	14¢
Medical/moving	17¢	20¢	18¢	17¢	19¢
Qualified business income (QBI) deduction taxable income thresholds:					
MFJ	\$ 326,600	\$ 321,400	\$ 315,000	N/A	N/A
Single, HOH, QW, or MFS	163,300	160,700 ⁴	157,500	N/A	N/A
Excess business loss disallowance limits:					
MFJ	\$ 518,000	\$ 510,000	\$ 500,000	N/A	N/A
Single, HOH, QW, or MFS	259,000	255,000	250,000	N/A	N/A
Health Care Deductions/Exclusions/Credits					
Health savings accounts (HSAs):					
Self-only coverage:					
Contribution limit	\$ 3,550	\$ 3,500	\$ 3,450	\$ 3,400	\$ 3,350
Plan minimum deductible	1,400	1,350	1,350	1,300	1,300
Plan out-of-pocket limit	6,900	6,750	6,650	6,550	6,550
Family coverage:					
Contribution limit	7,100	7,000	6,900	6,750	6,750
Plan minimum deductible	2,800	2,700	2,700	2,600	2,600
Plan out-of-pocket limit	13,800	13,500	13,300	13,100	13,100
Additional contribution limit—age 55 or older	1,000	1,000	1,000	1,000	1,000
Long-term care insurance—deduction limits:					
Age 40 and under	\$ 430	\$ 420	\$ 420	\$ 410	\$ 390
Age 41 – 50	810	790	780	770	730
Age 51 – 60	1,630	1,580	1,560	1,530	1,460
Age 61 – 70	4,350	4,220	4,160	4,090	3,900
Age 71 and older	5,430	5,270	5,200	5,110	4,870
Long-term care—excludible per diem	\$ 380	\$ 370	\$ 360	\$ 360	\$ 340
Medical savings accounts (MSAs):					
Self-only coverage:					
Plan minimum deductible	\$ 2,350	\$ 2,350	\$ 2,300	\$ 2,250	\$ 2,250
Plan maximum deductible	3,550	3,500	3,450	3,350	3,350
Plan out-of-pocket limit	4,750	4,650	4,550	4,500	4,450
Family coverage:					
Plan minimum deductible	4,750	4,650	4,550	4,500	4,450
Plan maximum deductible	7,100	7,000	6,850	6,750	6,700
Plan out-of-pocket limit	8,650	8,550	8,400	8,250	8,150
Health flexible spending arrangement—contribution limit	\$ 2,750	\$ 2,700	\$ 2,650	\$ 2,600	\$ 2,550
Advance payment of health insurance premium tax credit—repayment limit:⁵					
Household income < 200% of federal poverty line (FPL)	\$ 650	\$ 600	\$ 600	\$ 600	\$ 600
Household income ≥ 200% of FPL, but < 300%	1,600	1,600	1,550	1,500	1,500
Household income ≥ 300% of FPL, but < 400%	2,700	2,650	2,600	2,550	2,550
Household income ≥ 400% of FPL	No Limit	No Limit	No Limit	No Limit	No Limit
Individual mandate—penalty for failure to maintain coverage (per individual)	N/A	N/A	\$ 695	\$ 695	\$ 695
Qualified small employer HRA reimbursement limits:					
Employee only	\$ 5,250	\$ 5,150	\$ 5,050	\$ 4,950	N/A
Employee and family	10,600	10,450	10,250	10,000	N/A
Small employer health insurance credit—average wage limit	\$ 27,600	\$ 27,100	\$ 26,600	\$ 26,200	\$ 25,900
Education Tax Incentives					
Education savings accounts (ESAs) phase-out begins at AGI of:					
MFJ	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000	\$ 190,000
Single, HOH, QW, or MFS	95,000	95,000	95,000	95,000	95,000
Hope/American opportunity credit—maximum credit (per student)	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Lifetime learning credit (LLC)—maximum credit (per return)	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Education credit phase-out begins at AGI of:					
MFJ:					
Hope/American opportunity	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000	\$ 160,000
LLC	118,000	116,000	114,000	112,000	111,000
Single, HOH or QW:					
Hope/American opportunity	80,000	80,000	80,000	80,000	80,000
LLC	59,000	58,000	57,000	56,000	55,000
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Student loan interest deduction limit	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Student loan interest deduction phase-out begins at AGI of:					
MFJ	\$ 140,000	\$ 140,000	\$ 135,000	\$ 135,000	\$ 130,000
Single, HOH, or QW	70,000	70,000	65,000	65,000	65,000
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed

Quick Facts Data Sheet (Continued)

	2020	2019	2018	2017	2016
Savings bonds income exclusion phase-out begins at AGI of:					
MFJ or QW	\$ 123,550	\$ 121,600	\$ 119,300	\$ 117,250	\$ 116,300
Single or HOH	82,350	81,100	79,550	78,150	77,550
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Tuition deduction phase-out begins at AGI of:					
MFJ	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000	\$ 130,000
Single, HOH, or QW	65,000	65,000	65,000	65,000	65,000
MFS	Not Allowed	Not Allowed	Not Allowed	Not Allowed	Not Allowed
Additional Taxes					
AMT exemption:					
MFJ or QW	\$ 113,400	\$ 111,700	\$ 109,400	\$ 84,500	\$ 83,800
Single or HOH	72,900	71,700	70,300	54,300	53,900
MFS	56,700	55,850	54,700	42,250	41,900
Child subject to kiddie tax—earned income plus	N/A ⁶	N/A ⁶	N/A ⁶	\$ 7,500	\$ 7,400
Net investment income tax begins at AGI of:					
MFJ or QW	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Single or HOH	200,000	200,000	200,000	200,000	200,000
MFS	125,000	125,000	125,000	125,000	125,000
Retirement Plans					
IRA contribution limits:					
Under age 50 at year end	\$ 6,000	\$ 6,000	\$ 5,500	\$ 5,500	\$ 5,500
Age 50 or older at year end	7,000	7,000	6,500	6,500	6,500
Traditional IRA deduction phase-out begins at AGI of (taxpayer or spouse covered by employer retirement plan):					
MFJ and QW (covered spouse)	\$ 104,000	\$ 103,000	\$ 101,000	\$ 99,000	\$ 98,000
MFJ (non-covered spouse)	196,000	193,000	189,000	186,000	184,000
Single and HOH	65,000	64,000	63,000	62,000	61,000
MFS	0	0	0	0	0
Roth IRA contribution phase-out begins at AGI of:					
MFJ or QW	\$ 196,000	\$ 193,000	\$ 189,000	\$ 186,000	\$ 184,000
Single or HOH	124,000	122,000	120,000	118,000	117,000
MFS	0	0	0	0	0
SIMPLE IRA plan elective deferral limits:					
Under age 50 at year end	\$ 13,500	\$ 13,000	\$ 12,500	\$ 12,500	\$ 12,500
Age 50 or older at year end	16,500	16,000	15,500	15,500	15,500
401(k), 403(b), 457, and SARSEP elective deferral limits:					
Under age 50 at year end	\$ 19,500	\$ 19,000	\$ 18,500	\$ 18,000	\$ 18,000
Age 50 or older at year end	26,000	25,000	24,500	24,000	24,000
Profit-sharing plan/SEP contribution limits					
	\$ 57,000	\$ 56,000	\$ 55,000	\$ 54,000	\$ 53,000
Compensation limit (for employer contributions to profit sharing plans)					
	\$ 285,000	\$ 280,000	\$ 275,000	\$ 270,000	\$ 265,000
Defined benefit plans—annual benefit limit					
	\$ 230,000	\$ 225,000	\$ 220,000	\$ 215,000	\$ 210,000
Retirement saver's credit phased-out when AGI exceeds:					
MFJ	\$ 65,000	\$ 64,000	\$ 63,000	\$ 62,000	\$ 61,500
HOH	48,750	48,000	47,250	46,500	46,125
Single, MFS, or QW	32,500	32,000	31,500	31,000	30,750
Key employee compensation threshold					
	\$ 185,000	\$ 180,000	\$ 175,000	\$ 175,000	\$ 170,000
Highly compensated threshold					
	\$ 130,000	\$ 125,000	\$ 120,000	\$ 120,000	\$ 120,000
Social Security					
Maximum earnings and still receive full social security benefits:					
Under full retirement age (FRA) at year-end, benefits reduced by \$1 for each \$2 earned over	\$ 18,240	\$ 17,640	\$ 17,040	\$ 16,920	\$ 15,720
Year FRA reached, benefits reduced \$1 for each \$3 earned over (months up to FRA only)	48,600	46,920	45,360	44,880	41,880
Month FRA reached and later	No Limit	No Limit	No Limit	No Limit	No Limit
Estate and Gift Taxes					
Estate and gift tax exclusion	\$11,580,000 ⁷	\$11,400,000 ⁷	\$11,180,000 ⁷	\$ 5,490,000 ⁷	\$ 5,450,000 ⁷
GST tax exemption	\$11,580,000	\$11,400,000	\$11,180,000	\$ 5,490,000	\$ 5,450,000
Gift tax annual exclusion	\$ 15,000	\$ 15,000	\$ 15,000	\$ 14,000	\$ 14,000

¹ The exemption deduction amount is zero; however, for other Code provisions that refer to the Section 151 exemption amount (for example, the definition of qualifying relative when determining dependents under IRC Sec. 152), the amount is \$4,300 for 2020, and \$4,200 for 2019.

² Phaseout amount for all other filers (except MFS) is amount shown reduced by: \$5,890 in 2020; \$5,790 (\$5,800 if no children) in 2019; \$5,690 (\$5,680 if no children) in 2018; \$5,590 in 2017; \$5,550 in 2016.

³ Add \$8,000 if special depreciation claimed.

⁴ \$160,725 for MFS.

⁵ For single filing status, the amount is half of the amount shown.

⁶ **Law Change Alert:** The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) has suspended the provision limiting the exemption amount for children subject to the kiddie tax to the sum of the child's earned income plus \$7,750 (for 2019) for tax years 2018–2025 [IRC Sec. 55(d)(4)(A)(iii)].

⁷ Plus the amount of any deceased spousal unused exclusion and/or any restored exclusion related to lifetime gifts to a same-sex spouse.

⁸ Amount not available at time of publication.

Where to File 2019 Form 1040

Due Date: April 15, 2020

	Address to: <i>"Department of the Treasury Internal Revenue Service"</i>	Address to: <i>"Internal Revenue Service"</i>
Taxpayer lives in:	Without payment	With payment
AL, NC, SC	Kansas City, MO 64999-0002	P.O. Box 1214 Charlotte, NC 28201-1214
AK, CA, HI, WA	Fresno, CA 93888-0002	P.O. Box 7704 San Francisco, CA 94120-7704
AZ, CO, ID, KS, MT, ND, NE, NM, NV, OR, SD, UT, WY	Ogden, UT 84201-0002	P.O. Box 802501 Cincinnati, OH 45280-2501
AR, GA, IN, IA, KY, MO, NJ, OK, TN, VA	Kansas City, MO 64999-0002	P.O. Box 931000 Louisville, KY 42093-1000
CT, DC, MD, RI, WV	Ogden, UT 84201-0002	P.O. Box 931000 Louisville, KY 42093-1000
DE, MA, ME, NH, NY, VT	Kansas City, MO 64999-0002	P.O. Box 37008 Hartford, CT 06176-7008
FL, LA, MS, TX	Austin, TX 73301-0002	P.O. Box 1214 Charlotte, NC 28201-1214
IL, MI, MN, OH, WI	Fresno, CA 93888-0002	P.O. Box 802501 Cincinnati, OH 45280-2501
PA	Ogden, UT 84201-0002	P.O. Box 37008 Hartford, CT 06176-7008
A foreign country, U.S. possession or territory; or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien. If taxpayer lives in American Samoa, Puerto Rico, Guam, U.S. Virgin Islands, or the Northern Mariana Islands, see Pub 570.	Austin, TX 73301-0215 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA

Where to File Form 1040-ES for 2020

Due Dates: See *Estimated Tax Payments—Due Dates* on Page 16-6.

Address to: *"Internal Revenue Service"*

Taxpayer lives in:	Send to:
AR, CT, DC, GA, IN, IA, KY, MD, MO, NJ, OK, RI, TN, VA, WV	P.O. Box 931100 Louisville, KY 40293-1100
DE, ME, MA, NH, NY, PA, VT	P.O. Box 37007 Hartford, CT 06176-7007
AL, FL, LA, MS, NC, SC, TX	P.O. Box 1300 Charlotte, NC 28201-1300
AK, CA, HI, WA	P.O. Box 510000 San Francisco, CA 94151-5100
AZ, CO, ID, IL, KS, MI, MN, MT, NE, NV, NM, ND, OH, OR, SD, UT, WI, WY	P.O. Box 802502 Cincinnati, OH 45280-2502
A foreign country, U.S. possession or territory; or uses an APO or FPO address; or files Form 2555 or 4563; or is a dual-status alien. If taxpayer lives in American Samoa, Puerto Rico, Guam, U.S. Virgin Islands, or the Northern Mariana Islands, see Pub 570.	P.O. Box 1300 Charlotte, NC 28201-1300 USA

Where to File Form 4868 for 2019 Return

Due Date: April 15, 2020

	Address to: <i>"Department of the Treasury, Internal Revenue Service Center"</i>	Address to: <i>"Internal Revenue Service"</i>
Taxpayer lives in:	Without payment	With payment
AL, NC, SC	Kansas City, MO 64999-0045	P.O. Box 1302 Charlotte, NC 28201-1302
AK, CA, HI, WA	Fresno, CA 93888-0045	P.O. Box 7122 San Francisco, CA 94120-7122
AZ, CO, ID, KS, MT, ND, NE, NM, NV, OR, SD, UT, WY	Ogden, UT 84201-0045	P.O. Box 802503 Cincinnati, OH 45280-2503
AR, GA, IN, IA, KY, MO, NJ, OK, TN, VA	Kansas City, MO 64999-0045	P.O. Box 931300 Louisville, KY 40293-1300
CT, DC, MD, RI, WV	Ogden, UT 84201-0045	P.O. Box 931300 Louisville, KY 40293-1300
DE, MA, ME, NH, NY, VT	Kansas City, MO 64999-0045	P.O. Box 37009 Hartford, CT 06176-7009
FL, LA, MS, TX	Austin, TX 73301-0045	P.O. Box 1302 Charlotte, NC 28201-1302
IL, MI, MN, OH, WI	Fresno, CA 93888-0045	P.O. Box 802503 Cincinnati, OH 45280-2503
PA	Ogden, UT 84201-0045	P.O. Box 37009 Hartford, CT 06176-7009
A foreign country, American Samoa, or Puerto Rico; or is excluding income under IRC Sec. 933; or using an APO or FPO address; or filing Form 2555 or 4563; or is a dual-status alien; or is a nonpermanent resident of Guam or the U.S. Virgin Islands.	Austin, TX 73301-0215 USA	P.O. Box 1302 Charlotte, NC 28201-1302 USA
All foreign estate and trust Form 1040-NR filers	Kansas City, MO 64999-0045 USA	P.O. Box 1303 Charlotte, NC 28201-1303 USA
All other Form 1040NR, 1040NR-EZ, 1040-PR, and 1040-SS filers	Austin, TX 73301-0045 USA	P.O. Box 1302 Charlotte, NC 28201-1302 USA

Line-By-Line Quick Reference to 2019 Form 1040 (Continued)

Line	Description	Page	IRS Sch./Form	Information Return	Code Section	IRS Pub
Form 1040, Schedule 1 (Additional Income and Adjustments to Income)						
1	State and local income tax refunds	4-19	—	1099-G	111	525
2a, b	Alimony received, date of original divorce or separation agreement	13-11	—	—	71	504
3	Business income (loss)	6-1	C	1099-MISC, 1099-K	61	334, 535, 583, 587
4	Other gains (losses)	7-12	4797	1099-S	1231, 1244, 1245, 1250	544, 551
5	Rents, royalties, partnerships, S corps, trusts	8-1	E, 4835, 8582	1099-MISC, 1099-K, K-1	61, 469	527, 925
6	Farm income (loss)	6-15	F	1099-PATR, 1099-MISC	61	225
7	Unemployment compensation	4-19	—	1099-G	85	525
8	Other income	4-20	—	1099-G, 1099-MISC, 1099-Q, 1099-SA, W-2G	61	525
9	Total additional income	—	—	—	—	—
10	Educator expenses	9-7	—	—	62(a)(2)	529
11	Business expenses for certain individuals	9-6	2106	—	62(a)(2)	3, 529
12	Health savings account deduction	4-20	8889	5498-SA	223	969
13	Moving expenses for members of Armed Forces	4-22	3903	W-2	82, 217	521
14	Deductible part of self-employment tax	4-22	SE	—	164(f)	334
15	Self-employed SEP, SIMPLE, and qualified plans	Tab 14	—	5498	401(c), 408(k), 408(p)	560
16	Self-employed health insurance deduction	6-6	—	—	162(l)	535
17	Penalty on early withdrawal of savings	4-22	—	1099-INT	62(a)(9)	550
18a-c	Alimony paid, recipient's SSN, date of original divorce or separation agreement	4-23, 13-11	—	—	215	504
19	IRA deduction	4-23, 14-6	—	5498	219(b) and (g)	590-A
20	Student loan interest deduction	4-23, 13-4	—	1098-E	221	970
21	Tuition and fees	13-6	8917	—	222	970
22	Total adjustments to income	4-23	—	—	—	—
Form 1040, Schedule 2 (Additional Taxes)						
1	Alternative minimum tax	12-14	6251	—	55-59	17
2	Excess advance premium tax credit repayment	4-23	8962	1095-A	36B	—
3	Total tax	—	—	—	—	—
4	Self-employment tax	6-13	SE	—	1401, 1402, 1403	334
5	Unreported social security and Medicare taxes	4-24	4137, 8919	—	6053	531
6	Additional tax on IRAs, qualified plans, etc.	Tab 14	5329	1099-R	72(t)	590-B, 969
7a	Household employment taxes	12-17	H	W-2	3306	926
7b	First-time homebuyer credit repayment	12-10	5405	—	36	—
8	Other taxes	4-23	1	—	220, 223, 453, 409A, 1402, 1411, 3101	—
9	Section 965 net tax liability installment	4-26	965-A	—	965	—
10	Total other taxes	—	—	—	—	—
Form 1040, Schedule 3 (Additional Credits and Payments)						
1	Foreign tax credit	12-10	1116	1099-DIV, 1099-INT	27, 164(a)(3), 901	514
2	Child and dependent care expenses credit	12-4	2441	—	21	503
3	Education credits	12-8	8863	1098-T	25A	970
4	Retirement savings contribution (saver's) credit	12-12	8880	—	25B	590-A
5	Residential energy credits	12-12	5695	—	25D	530
6	Other credits	4-26	2	—	22, 30D, 38, 53	17, 524, 554
7	Total nonrefundable credits	—	—	—	—	—
8	2019 estimated tax payments and 2018 applied refund	4-26	1040-ES	—	6654(d)	505
9	Net premium tax credit	12-11	8962	1095-A	36B	974
10	Amount paid with extension	4-27	4868	—	—	17
11	Excess social security and RRTA tax withheld	4-27	—	W-2	31(b), 6413(c)	505
12	Credit for federal tax on fuels	4-27	4136	—	34	—
13	Other refundable credits	4-27, 12-1	2439, 8885	—	852	17, 550
14	Total other payments and refundable credits	—	—	—	—	—

Line-By-Line Quick Reference to 2019 Form 1040 (Continued)

Line	Description	Page	IRS Sch./Form	Information Return	Code Section	IRS Pub
2019 Form 1040 Schedule A						
1-4	Medical and dental expenses	5-2	—	—	213	502
5a	Taxes paid: State/local income or sales	5-5	—	—	164(a)(3)	17
5b	Real estate	5-5	—	—	164(a)(1)	530
5c	Personal property	5-6	—	—	164(a)(2)	17
6	Other taxes	5-5	—	—	164	17
8a	Interest paid: Home mortgage interest/points on Form 1098	5-10	—	1098	163(h)(3)	530, 936
8b	Mortgage interest—no Form 1098	5-7	—	—	163(h)(3)	530, 936
8c	Points—no Form 1098	5-10	—	—	461(g)	530, 936
8d	Mortgage insurance premiums	5-12	—	—	163(h)(3)(E)	—
9	Investment interest	5-8	4952	—	163(d)	550
11	Gifts to charity: Cash or check	5-13	—	—	170(a)	526
12	Noncash	5-14	8283	1098-C	170(b)	526, 561
13	Carryover from prior year	5-14	—	—	170(d)	526
15	Casualty and theft losses—federally declared disaster	5-16	4684	—	165(h)	547, 584
16	Other itemized deductions	5-18	—	—	165(d), 691(c), 1341	529
17	Total itemized deductions	—	—	—	—	—
18	Election to itemize deductions	4-16	—	—	63(e)	17, 501

¹ See *Schedule 2: Additional Taxes* on Page 4-23.

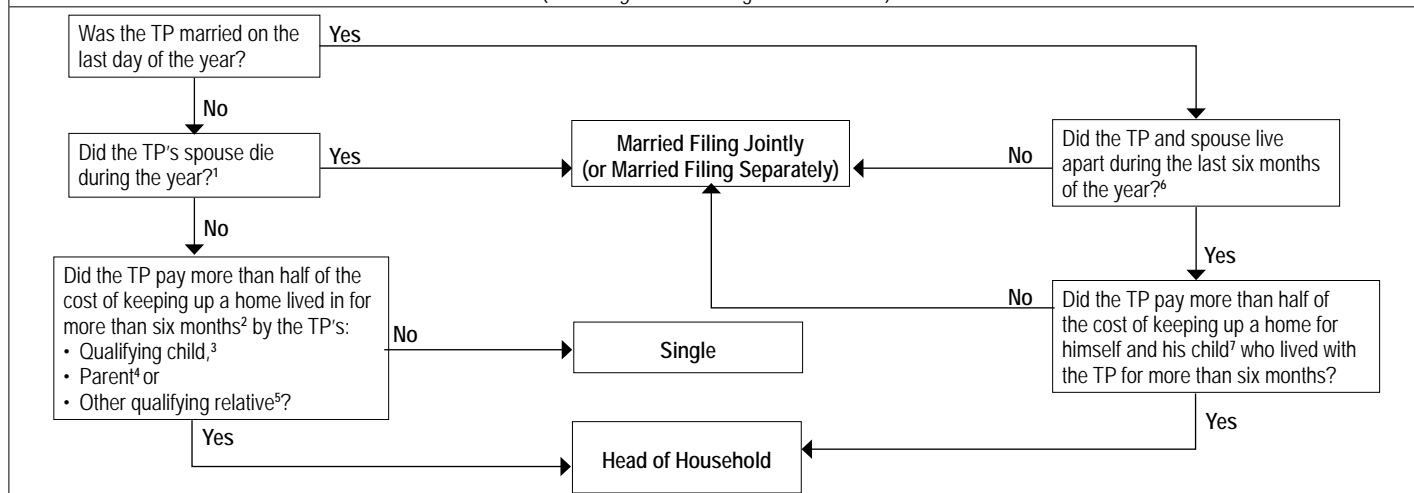
² See *Other Credits* on Page 4-26.

Form W-2, Box 12 Codes

<p>A ▶ Uncollected social security or RRTA tax on tips.</p> <p>B ▶ Uncollected Medicare tax on tips.</p> <p>C ▶ Taxable cost of group term-life insurance over \$50,000.</p> <p>D ▶ Elective deferrals to a Section 401(k) cash or deferred arrangement [including a SIMPLE 401(k) arrangement].</p> <p>E ▶ Elective deferrals to a Section 403(b) salary reduction agreement.</p> <p>F ▶ Elective deferrals to a Section 408(k)(6) salary reduction SEP.</p> <p>G ▶ Elective deferrals and employer contributions (including nonelective deferrals) to a Section 457(b) deferred-compensation plan.</p> <p>H ▶ Elective deferrals to a Section 501(c)(18)(D) tax-exempt organization plan.</p> <p>J ▶ Nontaxable sick pay. (Information only.)</p> <p>K ▶ 20% excise tax on excess golden parachute payments.</p> <p>L ▶ Substantiated employee business expense reimbursements (nontaxable).</p> <p>M ▶ Uncollected social security or RRTA tax on cost of group term-life insurance over \$50,000 (former employees only).</p> <p>N ▶ Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (former employees only).</p> <p>P ▶ Excludable moving expense reimbursements paid directly to a member of the U.S. Armed Forces.</p> <p>Q ▶ Nontaxable combat pay.</p>	<p>R ▶ Employer contributions to employee's Archer MSA.</p> <p>S ▶ Employee salary reduction contributions under a Section 408(p) SIMPLE plan.</p> <p>T ▶ Adoption benefits.</p> <p>V ▶ Income from exercise of nonstatutory stock options.</p> <p>W ▶ Employer contributions (including amounts employee elected to contribute using a cafeteria plan) to employee's health savings account (HSA).</p> <p>Y ▶ Deferrals under a Section 409A nonqualified deferred compensation plan.</p> <p>Z ▶ Income under a nonqualified deferred compensation plan that fails to satisfy Section 409A.</p> <p>AA ▶ Designated Roth contributions under a Section 401(k) plan.</p> <p>BB ▶ Designated Roth contributions under a Section 403(b) plan.</p> <p>DD ▶ Cost of employer-sponsored health coverage (nontaxable).</p> <p>EE ▶ Designated Roth contributions under a governmental Section 457(b) plan [but not contributions under a tax-exempt organization Section 457(b) plan].</p> <p>FF ▶ Permitted benefits under a qualified small employer health reimbursement arrangement.</p> <p>GG ▶ Income from qualified equity grants under Section 83(i).</p> <p>HH ▶ Aggregate deferrals under Section 83(i) elections as of the close of the calendar year.</p>
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Determining Filing Status

(See *Filing Status* on Page 4-7 for details.)



Note: TP = Taxpayer.

¹ A TP who paid over half the cost of keeping up a home for a dependent child can file as a *qualifying widow(er)* (see Page 4-9) for two years after the spouse dies.

² Certain temporary absences (such as military service and education) are ignored, and special rules apply for birth and death during the year.

³ See *Qualifying Child* on Page 4-10, but with the following modifications:

- For filing status, the release of a child's exemption to a noncustodial parent is ignored (the child is treated as the custodial parent's qualifying child).
- If the qualifying child is married, TP must be able to claim an exemption for him or the only reason TP cannot claim an exemption for him is because TP can be claimed as a dependent on someone else's return.

⁴ The TP must be able to claim an exemption for the parent. A parent does not have to live with the TP if the TP paid more than half the cost of keeping up the parent's main home for the entire year.

⁵ See *Qualifying Relative* on Page 4-11, but exclude the following:

- Unrelated individuals who are treated as qualifying relatives only because they were a member of the TP's household for the entire year.
- Individuals treated as a qualifying relative only because of a multiple support agreement.

⁶ Military deployment/temporary duty is not considered *living apart*.

⁷ TP's child, stepchild or foster child who can be claimed as dependent (ignoring any release of the exemption by the custodial parent).

FILING STATUS

There are five filing statuses:

- Single.
- Married filing jointly (MFJ).
- Married filing separately (MFS).
- Head of household (HOH).
- Qualifying widow(er) (QW).

Single

A taxpayer is single if unmarried or separated from a spouse, either by divorce or a separate maintenance decree, on December 31. A widow(er) whose spouse died before 2019 is single unless he meets the tests for qualifying widow(er).

Married Filing Jointly (MFJ)

Taxpayers may file jointly if on the last day of the year they are:

- Married and living together,
- Married and living apart, but not legally separated or divorced,
- Separated under an interlocutory (not final) divorce decree, or
- Living in a common-law marriage, if common-law marriage is recognized in the state where they currently reside or in the state where the marriage began.

If one spouse died in 2019, the survivor can file jointly with the decedent if the couple met one of the above tests on the date of death and the survivor did not remarry in 2019. See *Filing Income Tax Returns for Decedent (Form 1040)* on Page 15-2.

Same-sex marriages. For federal tax purposes, the term *spouse* includes an individual married to a person of the same sex if the couple is lawfully married [Reg. 301.7701-18(a)]. However, individuals who have entered into a registered domestic partnership,

civil union or other similar relationship that is not considered a marriage are not considered married for federal tax purposes.

Married Filing Separately (MFS)

Taxpayer married at year end can elect to file separately.

Disadvantages of Married Filing Separately (in addition to various amounts normally being half of MFJ amount)	
Lost Credits	<ul style="list-style-type: none"> • Earned income credit. • Credit for the elderly or the disabled.¹ • Child and dependent care credit.² • Adoption credit.²
Lost Education Benefits	<ul style="list-style-type: none"> • Education credits. • Student loan interest deduction. • Tuition and fees deduction (expired). • U.S. savings bond interest exclusion.
Standard Deduction	If one spouse itemizes deductions, the other must also itemize (that is, cannot claim the standard deduction).
Taxable Social Security	A greater percentage of social security benefits may be taxable. ¹
IRAs	<ul style="list-style-type: none"> • Traditional IRA deduction and Roth IRA contributions phased out at \$10,000 of modified AGI.¹ • Spousal IRA rules do not apply.
Passive Losses	<ul style="list-style-type: none"> • Rental real estate loss allowance is limited to \$12,500 per spouse (\$0 if spouses lived together at any time during the year), with lower phase-out thresholds. • One spouse's passive income cannot be offset by the other spouse's passive loss.
AMT Exemption	In addition to the exemption phasing out, some high income taxpayers must add an amount back to AMTI.
Filing Requirement	Regardless of age of taxpayer, if gross income is at least \$5, a tax return must be filed.

¹ Unless spouses lived apart for the entire year.

² Unless spouses lived apart for last six months of the year.

Schedule A—Itemized Deductions



Tab 5 Schedule A Topics

Phase-Out of Itemized Deductions	Page 5-1
Medical Deductions.....	Page 5-1
Taxes.....	Page 5-5
Interest Tracing	Page 5-6
Investment Interest Expense	Page 5-8
Interest—Mortgages	Page 5-8
Points—Mortgages	Page 5-10
Other Mortgage Interest Deduction Rules	Page 5-12
Charitable Contributions	Page 5-13
Casualty Losses.....	Page 5-16
Miscellaneous Itemized Deductions.....	Page 5-18

Related Information

- *Contributions: Noncash Donations*—Tab 3
- *Home Mortgages*—Tab 15
- *Sales Tax Deduction Worksheet*—Tab 3

PHASE-OUT OF ITEMIZED DEDUCTIONS

Before 2018, an individual's itemized deductions were reduced by 3% of the amount adjusted gross income (AGI) exceeded certain threshold amounts. This phase-out of itemized deductions was eliminated by the TCJA so it does not apply to 2019.

MEDICAL DEDUCTIONS

See also IRS Pub. 502

Deduction Threshold

Medical expenses in excess of **7.5%-of-AGI** are deductible as itemized deductions [IRC Sec. 213(a)]. This AGI limit applies for both regular tax and AMT [IRC Sec. 56(b)(1)].

When to Deduct

Medical expenses are deductible in the year paid, regardless of when the expenses were incurred, and regardless of the taxpayer's accounting method [Reg. 1.213-1(a)].

Exceptions:

- **Credit card charge.** If paid with a bank credit card, the medical expense is deductible when charged, not when the credit card company is paid (Rev. Rul. 78-39).
- **Decedents.** An election can be made to deduct medical expenses paid by a decedent's estate within one year after the date of death on the decedent's final Form 1040, as if the expenses were paid when the medical services were provided. Thus, in some cases, an amended Form 1040 is filed. See *Itemized Deductions* on Page 15-2 for more information.



Medical Expenses Paid for Others

Deductible medical expenses include expenses paid for the taxpayer's spouse and for any person who qualifies as the taxpayer's dependent (qualifying child or qualifying relative), except that some of the tests do not have to be met to deduct an individual's medical expenses.

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Dependents, for deducting medical expenses, must be U.S. citizens or nationals or residents of the U.S., Canada or Mexico, and the taxpayer's:

- Child, foster child, stepchild, sibling, half-sibling, step-sibling, and any of their descendants, if that person met the following tests:
 - Was under age 19 (or under age 24 and a full-time student) at the end of the tax year or permanently and totally disabled,
 - Lived with the taxpayer for more than half the year, and
 - Did not provide more than half of his own support.
- Child, stepchild, foster child, a descendant of any of them (for example, grandchild), sibling or half-sibling (or a child of theirs), parent or an ancestor or sibling of either of them (for example, grandparent, aunt, or uncle), step-sibling, stepparent, son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law or any other person if that person lived as a member of the taxpayer's household all year (provided the relationship does not violate local law) and for whom the taxpayer provided more than half the support for the year.



- Former spouse, if the marriage existed either when the bills were incurred or at the time of payment.
- Adopted child before adoption, if child qualified as a dependent when the medical expenses were incurred or paid. After an adoption is final, an adopted child is treated as the taxpayer's own child. Note that an adopted child does not have to be a U.S. citizen or national, or a resident of the U.S., Canada or Mexico if the parent claiming the medical expense deduction is a U.S. citizen or national with whom the adopted child lived as a member of the household during the year the medical expenses were paid.

Observation: Taxpayers can deduct medical expenses paid for some individuals who don't qualify as their dependent, such as a parent for whom the taxpayer provides over half the support, but the parent's gross income exceeds \$4,200 (for 2019) [IRC Sec. 213(a)]. Likewise, medical expenses for a married child who doesn't qualify as the taxpayer's dependent only because he files a joint return are deductible.

Medical expenses a taxpayer pays for a dependent he claims under a multiple support agreement are also deductible [Reg. 1.213-1(a)(3)]. But, medical expenses paid by others who joined the taxpayer in the agreement are not deductible.

Example: Leon and his three brothers each provide one-fourth of their mother's total support. Under a multiple support agreement, Leon claims his mother as a dependent. Leon paid all of her medical expenses, but was reimbursed by his brothers for three-fourths of the amount. Leon can only deduct one-fourth of his mother's medical expenses. His brothers cannot deduct any part of the expenses that they repaid to Leon.

Variation: Assume Leon and his brothers share the nonmedical support items equally, but Leon separately pays all of his mother's medical expenses. Now, he can deduct the unreimbursed amount he paid for her medical expenses.

Divorced parents. A divorced (or separated) parent can deduct medical expenses paid for a child (regardless of which parent claims the child's dependency exemption) if the two parents together provide more than half of the child's support and the child is in the custody of one or both parents for more than half the year [IRC Sec. 213(d)(5); Rev. Proc. 2008-48]. This does not apply if the child's exemption is being claimed under a multiple support agreement.

Amortizing Points

Amortization is per month, not per year. Thus, if a taxpayer incurs \$2,000 in points on a 30-year loan of 360 monthly payments and the first payment is for November of the current year, only \$11.12 is deductible in the current year ($\$2,000 \div 360 = \5.56×2 months).


Second Home

Assuming the home is treated as the second home under the qualified residence interest expense rules, points are treated as follows.

Personal use only. Points are amortized as mortgage interest expense over the entire loan period.

Rental and personal use:

- 1) If personal use is not more than the greater of 14 days or 10% of the days the home is rented, the second home is treated as a rental property. Amortize and deduct the rental portion of the points over the life of the loan. Points allocated to personal use are non-deductible.
- 2) If personal use exceeds the 14-day or 10% use rule, divide the points proportionately based on rental and personal use. Amortize and deduct the amount attributable to the rental activity against the rental income, and amortize and deduct the balance as qualified residence interest expense.

 **Note:** See *Renting Out a Home* on Page 8-1.



OTHER MORTGAGE INTEREST DEDUCTION RULES

Late Payment Charges

Late payment charges are generally deductible as mortgage interest if they are not for a specific service such as a collection fee.

Land Rent (Redeemable Ground Rent)

Periodic lease payments made for the use of land on which a home is located can be deductible as mortgage interest. To be deductible, all of the following must be true.

- 1) The land lease term is more than 15 years, including renewal periods, and is freely assignable by the lessee;
- 2) The lessee has the right to terminate the lease and purchase the lessor's land by paying a specific amount; and
- 3) The lessor's interest in the land is a security interest to protect the entitlement to rental payment.

Construction Loans

Interest on construction loans or loans to buy a lot is qualified residence interest if the following requirements are met:

- 1) A home under construction is treated as a qualifying home for up to 24 months provided that when ready for occupancy, the house is used as a main or second home. The deduction was allowed even when the home was never completed because the taxpayers could not obtain financing (*Rose*, TC Summary Opinion 2011-117).
- 2) If the construction period exceeds 24 months, the interest for the remaining months is considered personal interest.
- 3) Loan proceeds must be directly traceable to home construction expenses, including the purchase of a lot.
- 4) Before construction begins, the loan does not qualify as acquisition debt and interest incurred during that period is treated generally as personal interest.



- 5) *90-day rule.* A loan incurred within 90 days after construction is complete may also qualify to the extent of construction expenses made within the period starting 24 months before completion of the house and ending on the date of the loan (Notice 88-74).

Timeshares


Homes owned under a time-sharing plan can be considered second homes for deducting interest expense. A time-sharing plan is an arrangement between two or more people that limits each person's interest in the home or right to use it to a certain part of the year. However, if any portion of the timeshare is rented to a third party, the ability to claim a deduction for the personal portion of the mortgage interest may be lost.

Boats, Mobile Homes, and House Trailers

For the qualified residence interest deduction, a qualified home includes a boat, mobile home, house trailer, or similar property that has sleeping, cooking, and toilet facilities. However, local law must allow for such use. A houseboat would not qualify if moored at a marina where overnight sleeping is prohibited. Interest paid on a boat or mobile home used on a transient basis generally is not deductible for alternative minimum tax. See *AMT for Individuals—Adjustments and Preferences (2019)* on Page 12-15.

Prepaid Mortgage Interest

Mortgage interest prepaid in 2019 that fully accrues by January 15, 2020, may be included in Form 1098, box 1. However, this prepaid interest is not deductible in 2019; it should be deducted in 2020 (Pub. 936).

 **Note:** Some lenders apply prepaid amounts to both interest and principal; others apply prepayments to principal only.




Reverse Mortgages

A reverse mortgage is used to convert home equity into cash. The homeowner receives payments (as a line of credit, a lump sum, monthly payments for a specified number of years, or payments over his life). The amount received is a loan, so it is tax-free and will not affect social security benefits.

When a reverse mortgage comes due, the lender recovers the amount owed from the borrower (or the heirs).

Mortgage interest. Mortgage interest is added to the loan balance over the term of the loan, and isn't normally paid until the loan is paid off in full. The debt is typically treated as home equity debt and therefore, interest paid in 2019 is not deductible.

Mortgage Insurance Premiums

 **Expired Provision Alert:** ~~The deduction for mortgage insurance premiums expired December 31, 2017. Unless Congress extends this provision, it will not be available for mortgage insurance premiums paid after 2017. This discussion is retained in the event the provision is extended.~~



For 2007–2020, mortgage insurance premiums paid or accrued during the year in connection with acquisition debt on a taxpayer's primary or second home are deductible as residence interest [IRC Sec. 163(h)(3)(E)]. The deduction phases out ratably by 10% for each \$1,000 (or portion thereof) by which the taxpayer's AGI exceeds \$100,000. Phase-out amounts are halved for married filing separately. Thus, it is not available for taxpayers with AGI greater than \$109,000 (\$54,500 for MFS). Only amounts paid on mortgage insurance contracts issued after 2006 qualify.

CHARITABLE CONTRIBUTIONS

See also IRS Pubs. 526 and 561 and Donation Guides in Tab 3

Deductible Contributions

Includes money or property given to:

- Churches, synagogues, temples, mosques, and other religious organizations.
- Federal, state and local governments, if contribution is solely for public purposes.
- Nonprofit schools, hospitals, and volunteer fire companies.
- Public parks and recreation facilities.
- Public charities such as Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy/Girl Scouts, Boys/Girls Clubs of America, etc.
- War veterans' groups.

Charitable travel. Travel expenses such as transportation, meals, and lodging are deductible if there is not a significant element of personal pleasure, recreation, or vacation in the travel. Car expenses can be deducted using actual cost or a standard mileage rate of 14¢ per mile.

Court Case: Charitable deductions were allowed for the cost of lodging in deluxe hotels while traveling on behalf of a charitable organization. These costs were considered reasonable because the taxpayer was an important person in the organization and to effectively perform his job, he needed to stay at or near the hotel where the function was being held (*Cavalaris*, TC Memo 1996-308).

Volunteer out-of-pocket expenses when serving a qualified organization. Deductible expenses include unreimbursed out-of-pocket expenses that directly benefit a qualified charity. For example, scout leaders can deduct the cost of uniforms (and cleaning) that are worn when performing donated services, but that are not suitable for everyday wear.

Text message. Contributions made by text message are deductible in the year the text message is sent if the contribution is charged to the individual's telephone or wireless account.

Credit card. Contributions charged to a bank credit card are deductible in the year the charge is made (Rev. Rul. 78-38).

Delegate to a church convention. Deduct the unreimbursed expenses of attending. A person must be a delegate and not merely attending on his own.

Exchange students. Deduct up to \$50 per school month for housing an exchange student (grade 12 or lower) sponsored by a qualified organization. The student does not have to be a foreign student as long as the student becomes a member of the taxpayer's household under a written agreement between the taxpayer and the charitable organization.

Foster parents. If there is no profit or profit motive, deduct expenses exceeding payments received from a charitable organization for providing support for qualified foster care individuals placed in the home.

Canadian, Mexican, and Israeli charities. Donations to certain Canadian, Mexican, and Israeli charities may be deductible under an income tax treaty with that country. Special rules or limits may apply. U.S. income tax treaties with these countries can be found on the IRS website.

Nondeductible Contributions

Money or property given to:

- Civic leagues, social and sports clubs, labor unions, and chambers of commerce.
- Foreign organizations (other than certain Canadian, Mexican, and Israeli charities).
- Groups that are run for personal profit.
- Groups whose purpose is to lobby for law changes.
- Homeowners' associations.
- Individuals.

- Political groups or candidates for public office.

Cost of raffle, bingo, or lottery tickets.

Dues, fees or bills paid to country clubs, lodges, fraternal orders, or similar groups.

Tuition (secular or religious).

Value of blood given to a blood bank.

Value of time or services rendered by the taxpayer.

Rental value of a right to use property donated to charity, such as the right to stay at a vacation home for one week. The entire ownership interest in the property must be donated to charity to make the contribution deductible.

Payments for the right to purchase tickets or seating at a college athletic event. Before 2018, a payment made to a college or university in exchange for a right to buy tickets for seating at a sporting event qualified for a charitable deduction of 80% of the amount paid. The TCJA repealed this provision for tax years after 2017.

Special Considerations

Charitable distribution from IRA. See *Qualified Charitable Distributions (QCDs)* on Page 14-13.

IRS shuts down real estate tax credit workarounds. Some states have enacted legislation that allows taxpayers to make payments to state-established charitable funds in exchange for credits against their state and local taxes. Under final regulations, taxpayers must reduce their otherwise deductible charitable contribution for such payments by the amount of state or local tax credit received or expected to be received, for payments made after August 27, 2018 [Reg. 1.170A-1(h)(3)]. However, the rules don't apply if the state tax credit does not exceed 15% of the taxpayer's payment (IR-2019-109).

Observation: The IRS issued the regulation cited above to prevent taxpayers from circumventing the TCJA's \$10,000 deduction limit on state and local taxes by treating payments for real estate taxes as charitable contributions. See Notice 2019-12 and **Prop. Reg. 1.164-3(j)** for the safe harbor rule that generally allows an individual who itemizes deductions to treat would be charitable contribution deductions that are disallowed under the final regulations as state or local taxes for federal purposes.

Limits on Charitable Contribution

Increased limit. The TCJA raised the AGI percentage limitation to 60% for cash contributions to 50% charities for tax years 2018–2025. The other limits of 50%, 30%, and 20% remain unchanged.

Overall limit. An overall 50%-of-AGI limit generally applies to a taxpayer's aggregate deductible contributions (including those subject to the separate 20% or 30% limitation). However, this limit does not apply to contributions subject to the new 60%-of-AGI limit, certain disaster relief qualified contributions or certain qualified conservation contributions (see *Qualified Conservation Contributions* on Page 5-14).

Disaster Relief Alert: The 2019 Disaster Act temporarily suspends the charitable contribution deduction AGI percentage limitations for certain qualified contributions made by individuals from January 1, 2018 through February 18, 2020. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019* on Page 17-1.

Practice Tip: The deduction limit percentage for many charities is available online as part of the Tax Exempt Organization Search at <https://apps.irs.gov/app/eos/>. In addition, the IRS has ruled that individuals may rely on the IRS's online database of tax-exempt organizations for determining an organization's tax-exempt status; in the event the IRS determines that an organization ceases to qualify as tax-exempt, donations by individuals unaware of the change continue to be deductible until the IRS makes a public announcement of the change in status (Rev. Proc. 2018-32).

Up to 60%-of-AGI limit. Donation of cash to a publicly supported charity or foundation qualifying as a 50% limit organization.

Required Reductions to FMV—Donating Appreciated Property

The amount allowed as a deduction for donated property may be less than FMV depending on the type of property involved.

Ordinary income property. The deduction is generally limited to the adjusted basis of the property. This applies to property that would generate ordinary income if sold at FMV on the date of contribution. The allowable deduction is FMV reduced by the amount that would be ordinary income or short-term capital gain if sold at FMV.

Recapture income under IRC Secs. 617, 1245, 1250, 1252, and 1254 is also ordinary income for this purpose. Therefore, the deductible amount is the asset's FMV reduced by the amount of recapture income that would be generated on the asset's sale.



Capital gain property. Generally, the deduction is FMV for property that would generate long-term capital gain if sold at FMV on the contribution date.

Exceptions: FMV must be reduced by any amount that would have been long-term capital gain if the property were sold for FMV if:

- The property (other than qualified appreciated stock) is contributed to a private nonoperating foundation,
- The property is tangible personal property that is put to an unrelated use by the charity or
- The taxpayer elects to apply the 50%-of-AGI limit rather than the 30%-of-AGI limit that normally applies to donations of capital gain property.

Qualified appreciated stock is corporate stock that is long-term capital gain property for which market quotations are readily available on an established securities market. Quotations from a brokerage firm do not meet this test (Ltr. Rul. 199915053). Qualified appreciated stock does not include any stock if the taxpayer and his family have contributed (considering all prior contributions) more than 10% of the value of all the corporation's outstanding stock [IRC Sec. 170(e)(5)(C)].

Note: Shares in open-ended mutual funds are treated as qualified appreciated stock if quotations are readily available in general circulation newspapers (Ltr. Rul. 199925029).

Unrelated-use property. If tangible personal property is put to an unrelated use by the charity, such as donating a painting to a church that then sells it, the deduction is limited to the property's adjusted basis. Fair market value would be allowed for the deduction if the taxpayer obtains a letter from the charity stating its intention to use the gift in a way that is related to the organization's charitable purpose. If the deduction for the property is more than \$5,000, the charity must agree in writing on Form 8283 to notify the IRS if the property is sold within two years of the donation.

Donating Appreciated Property	
Examples of Ordinary Income Property—Deduct Basis	Examples of Capital Gain Property—Deduct FMV
<ul style="list-style-type: none"> • Inventory. • Donor's creative works. • Stocks and other capital assets held one year or less. • Business-use property to the extent it would generate ordinary income if sold (such as depreciation recapture). 	<ul style="list-style-type: none"> • Land held more than a year. • Stocks and other capital assets held more than a year. • Jewelry, artwork, etc. held more than one year.

Strategy: *Capital gain property.* Donate property and deduct FMV (reduced by any allowable depreciation). Even though appreciation of the property is not reported as income, a deduction for FMV is allowed.

Strategy: *Devalued business or investment property.* Sell the asset and donate the proceeds. This generates a deductible loss from the sale and a deduction for a charitable contribution. If the

property itself is donated, the deduction is limited to its FMV and no capital loss is allowed.

Gifts of Remainder Interests

A remainder interest is the legal right to own property at the end of a fixed period of time or at the death of another person. The right to own the property in the interim is an "estate for a term of years" or a "life estate."

To qualify for a charitable deduction, a remainder interest donated to charity must be one of the following.

- 1) *Personal residence or farm* [IRC Sec. 170(f)(3)(B)]. The taxpayer retains rights to own and use the property until death.
- 2) *Qualified conservation contribution* [IRC Sec. 170(h)]. A contribution of real property interests exclusively for conservation purposes, including remainder interests and use restrictions granted in perpetuity.
- 3) *Charitable remainder trusts and pooled-income funds* [IRC Sec. 170(f)(2), 664 and 642(c)(5)]. Generally, a charitable remainder trust is required to make annual payments to noncharitable beneficiaries for life or for a term of years and to pay the remainder to charity. A pooled-income fund functions like a charitable remainder trust but holds assets from multiple donors.

Because these transfers are irrevocable, a charitable deduction is allowed in the year of the transfer even though the charity does not receive the property until a later time. The amount of the deduction is generally the present value of the remainder interest on the date of the gift. Gifts of remainder interests are subject to the AGI limitations and other restrictions on charitable deductions.

Taxpayer must file Form 8283 to report the gift. See *Charitable Gifts and Bequests* on Page 15-11 for more information on partial interests. See IRS Pub. 561 for information on valuing partial interests.

CASUALTY LOSSES

Form 4684; See also IRS Pubs. 547 and 976

Disaster Relief Alert: Special rules apply to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019* on Page 17-1.

For 2018–2025, personal casualty and theft losses are not deductible unless attributable to a federally declared disaster or, if the taxpayer has a personal casualty gain, to the extent of such gain.

Personal Casualty Losses

For 2018–2025, personal casualty losses are deductible only if attributable to a federally declared disaster. The loss is reported on Form 4684 (Casualty and Theft Losses), Part A.

Note: A personal casualty loss does not have to occur in the county of a designated "disaster area" to be deductible. Federally declared disasters are issued on a state-wide basis; therefore, a loss attributable to a disaster must have occurred in the state receiving the federal disaster declaration (PMTA 2019-008).

Federally declared disaster. A federally declared disaster is a disaster that occurred in an area directed by the President to be eligible for federal assistance [IRC Sec. 165(i)(5)].

An ongoing list of federally declared disasters is available on the Federal Emergency Management Agency (FEMA) website at www.fema.gov.

Computing the loss and deduction. A casualty loss equals:

- The lesser of (a) adjusted basis in the property before the casualty or (b) decrease in FMV of the property as a result of the casualty,
- Minus any insurance or other reimbursement received or that is expected to be received.

Limits:

- **\$100 per casualty.** Reduction applies to each event that causes the casualty. For example, a federally declared disaster damages

the house, garage, and car. There is only one \$100 reduction, not three.

- **10% of AGI.** Reduce the total of all casualty or theft losses on personal-use property by 10% of AGI. Apply this reduction after the \$100 per casualty reduction.

Federally Declared Disasters—Quick Summary of Special Tax Relief Provisions		
Item	Special Relief	IRC Sec.
Casualty loss deduction ¹	Can elect to claim losses in year before year of the disaster.	165(i)(1)
Disaster relief payments	Payments are nontaxable. See <i>Disaster Relief Payments</i> on Page 5-17.	139
Involuntary conversion—business or income-producing property	Any tangible replacement property acquired for use in <i>any</i> business is treated as similar or related in service or use to the destroyed property.	1033(h)(2)
Involuntary conversions—principal residence	<ul style="list-style-type: none"> • Replacement period is four years rather than two years. • Special rules for avoiding gain on receipt of insurance proceeds. 	1033(h)(1)
Tax deadlines	Deadlines for filing and paying taxes and making IRA contributions are often postponed for certain federally declared disasters.	7508A

¹ Loss must be attributable to a federally declared disaster and occur in a disaster area for the election to apply.

Victims of Certain 2016 and 2017 Disasters (including Hurricanes Harvey, Irma, and Maria, and California Wildfires). Congress enacted special tax relief to help taxpayers and businesses recover from the impact of 2016 and 2017 qualified disasters. This special relief is in the Disaster Tax Relief and Airport and Airway Extension Act of 2017, the TCJA, and the Bipartisan Budget Act of 2018. Although a disaster loss is a type of casualty loss, special rules apply that generally provide more favorable tax treatment for *qualified* disaster losses.

Law Change Alert: The 2019 Disaster Act extends special tax relief to victims of qualified 2018 and 2019 disasters [Sec. 204(b)(1)(C) of the 2019 Disaster Act]. In addition, the additional standard deduction allowed by this provision is not treated as a preference item for alternative minimum tax [Sec. 204(b)(1)(D) of the 2019 Disaster Act].

A 2016 qualified disaster is a major disaster declared in calendar year 2016 by the President of the United States under Section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act to warrant federal disaster assistance. Only Hurricane Harvey and Tropical Storm Harvey, Hurricane Irma, Hurricane Maria, and the California wildfires are considered 2017 qualified disasters for special disaster tax relief purposes. See Pub. 976 (Disaster Relief) for more information.

Note: Taxpayers can deduct qualified disaster losses without itemizing other deductions on Schedule A (Form 1040). The net casualty loss from these qualified disasters does not need to exceed 10% of AGI to qualify for the deduction, but the \$100 limit per casualty is increased to \$500.

Insurance reimbursement. Reduce the casualty loss amount by actual insurance reimbursement and by any expected reimbursement. If the property is covered by insurance, an insurance claim must be filed—otherwise, the casualty loss is not allowed. If the reimbursement exceeds the casualty amount (recovery is more than tax basis), the profit is currently taxable. *Exception:* If the insurance reimbursement is reinvested in similar-use property, tax is postponed until the replacement property is sold. See *Gains Realized on Homes in Disaster Areas* on Page 5-18.

Insurance reimbursement in following year. If a casualty loss is deducted in one year based on an expected insurance reimbursement, and the actual reimbursement in a following year turns out to be more or less than expected, an adjustment may be required.

- **More than expected.** If the reimbursement is more than expected, the excess amount is treated as ordinary income in the year received. *Exception:* The amount is not included in income to the

extent the prior year's deduction did not reduce tax liability (IRC Sec. 111).

- **Less than expected.** If the reimbursement is less than expected, the difference is treated as a casualty loss in the year the taxpayer can reasonably expect no more reimbursement. The prior year's tax return is not amended. The loss is combined with other casualty losses for that year [Reg. 1.165-1(d)(2)].

Rule for personal use real estate. Measure the decrease in FMV of the property and improvements as a whole, not as separate items.

Example: Elroy paid \$150,000 for his home (\$10,000 for the land and \$140,000 for the house) and spent an additional \$2,000 for landscaping. A federally declared disaster destroyed his home and damaged the shrubbery and trees in the yard. An appraiser valued the property as a whole at \$175,000 before the fire, but only \$50,000 after the fire. Therefore, the starting point for determining Elroy's casualty loss deduction is \$125,000.

Court Case: A couple claimed a casualty loss deduction for two tornado damaged parcels of land they owned. The IRS issued a deficiency notice, disallowing the entire deduction and assessing an accuracy-related penalty. At trial, the couple established, to the Tax Court's satisfaction, the decline in the land's value caused by the tornado, but couldn't prove that they had basis in one of the parcels. Although the husband claimed that he bought the property from his mother, he didn't show how much he paid her or when the purchase took place. Therefore, the Tax Court denied the loss deduction on that parcel. However, the Court didn't uphold the accuracy-related penalty because the couple correctly valued the properties and didn't act negligently (*Coates*, TC Memo 2016-197).

Net operating loss. If the deductible casualty loss exceeds income, the casualty loss may create an NOL. See *Net Operating Loss (NOL)* on Page 6-12 for NOL rules.

Disaster Relief Payments

Gross income does not include *qualified disaster relief payments* received by individuals (IRC Sec. 139). A qualified disaster is a federally declared disaster or one determined by an applicable government authority to warrant assistance from the government. The government, a charity or an employer can make payments (Rev. Rul. 2003-12). Qualified payments include amounts to reimburse or pay any reasonable and necessary expense for:

- Personal, family living, or funeral expenses.
- Repair of personal residence or its contents.
- Temporary housing.
- Transportation.
- Medical.

Safe Harbor Methods for Computing Loss

The IRS has provided optional safe harbor methods that taxpayers may use to figure the amount of their casualty losses to their personal-use residential real property and personal belongings. To figure the amount of casualty loss, taxpayers generally must determine the actual reduction in the fair market value (FMV) of the lost or damaged property using a competent appraisal or the cost of repairs actually made. Alternatively, the safe harbor methods in Rev. Proc. 2018-8 allow taxpayers to determine the decrease in FMV in other ways.

Note: If a taxpayer qualifies for and uses a safe harbor method, the IRS will not challenge the determination. The use of a safe harbor method is not mandatory.

An individual who uses a safe harbor method must reduce the loss by the value of any *no-cost* repairs (for example, repair or rebuilding of an individual's personal residence by volunteers at no cost to the individual).

Personal-use residential real property. Personal-use residential real property generally is real property, including improvements, that is owned by an individual who suffered a casualty loss and that contains at least one personal residence. It does not include

Under the farm optional method, net earnings are the lesser of \$5,440 (\$5,891 × 92.35%) or 2/3 of gross farm income (not less than zero).

The nonfarm optional method is available only if (1) net nonfarm profits are less than \$5,891 and less than 72.189% of gross nonfarm income and (2) net earnings from self-employment are at least \$400 in two of the prior three years. It can only be used five times.

The optional methods are computed in Part II of Schedule SE.



Farm Rental Income

Rent received for the use of farmland is rental income, not farm income. Such rental income is not subject to SE tax. However, material participation in the farming operations on the land may result in the income being considered farm income (subject to SE tax) rather than rental income.

Determining material participation for SE tax. A landlord materially participates in the farming activity (and is subject to SE tax) if he has an arrangement with the tenant for participation and meets any of the following tests [Reg. 1.1402(a)-4(b); IRS Pub. 225]:

- 1) The landlord does any three of the following:
 - a) Pays at least half the direct costs of producing the crop or livestock.
 - b) Furnishes at least half the tools, equipment, and livestock used in the production activities.
 - c) Advises or consults with the tenant.
 - d) Inspects the production activities periodically.
- 2) Regularly and frequently makes management decisions substantially contributing to the success of the enterprise.
- 3) Works 100 hours or more spread over a period of five weeks or more in activities connected with agricultural production.
- 4) Does things that, considered in their totality, show material and significant involvement in production of the farm commodities.

Pasture income and rental:

- **Rental income.** Fee paid to the taxpayer for renting out the taxpayer's pasture for the use and care of the renter's cattle (Schedule E).
- **Farm income.** Fee paid to the taxpayer for taking someone else's cattle to the taxpayer's pasture and for assuming responsibility for furnishing water, salt, etc. (Schedule F).

Where to report farm rental income:

- **Form 4835.** Rent is a share of crops or livestock produced by the tenant, and the taxpayer did not materially participate in farm operation or management.
- **Schedule E.** Cash rent is a flat charge for use of farm land.
- **Schedule F.** Farm operations in which the landlord materially participates, whether received in cash or as a crop share. See *Determining material participation for SE tax* on Page 6-16.
- **Schedule C.** Rental of farm equipment as a trade or business.
- **Form 1040, Schedule 1, line 8.** Personal property rental, not conducted as a trade or business (for example, infrequent rental of a tractor). Related expenses are deducted on line 22 of Form 1040, Schedule 1 with the notation "PPR."



Crop Shares

Rents received as crop shares are included in income (at their FMV) in the year the crop shares are reduced to money, whether the cash or accrual method is used [Reg. 1.61-4(a) and (b)].

Crop shares used to feed livestock. Crop shares received by a landlord and fed to livestock are considered converted to money

when fed to the livestock. At the same time, a business expense deduction, for the same amount, is taken for livestock feed. Even though these two transactions cancel each other out, proper reporting is necessary to determine net earnings from self-employment under the farm optional method (Schedule SE, Part II).

Crop shares given to others (gift). Crop shares received as a landlord and given to others are income to the landlord. They are considered converted to money when the gift is made.

Agricultural Programs

Commodity Credit Corporation (CCC) loans. If part or all of a crop is pledged to secure a CCC loan, farmers can elect to report the loan proceeds as income in the year received rather than in the year the crop is sold [IRC Sec. 77(a)]. All succeeding loans must be reported in the same way once this election is made. The amount reported as income becomes the basis in the commodity. If the sale proceeds from the commodity is different than the basis in the commodity, report the difference as income or as a loss when the sale occurs.

Note: Farmers who elect to report CCC loans as income in the year received can automatically switch to treating the proceeds as loans. This change in accounting method is made on a cut-off basis. Therefore, a Section 481(a) adjustment to income is not required. Form 3115 is filed in the year the change is made (Rev. Proc. 2019-43, Section 2).

CCC nonrecourse marketing assistance loan program. Repayment of a loan secured by the farmer's pledge of an eligible commodity is generally based on the lower of the loan rate or the prevailing world market price for the commodity on the date of repayment. If the loan is repaid when the world price is lower, the difference between the repayment and the original loan is market gain. Whether repaid with cash or CCC certificates, the taxpayer will receive a Form 1099-G showing the market gain.



Conservation Reserve Program (CRP). A long-term contract between the U.S. Department of Agriculture (USDA) and the owner or operator of highly erodible cropland provides for conversion of that cropland to a less intensive use in exchange for CRP payments. CRP payments are included in income but may qualify for a cost-sharing exclusion (see Pub. 225).

Taxpayers who receive social security retirement or disability payments are exempt from SE tax on CRP payments [IRC Sec. 1402(a)(1)]. According to the IRS, individuals not receiving social security benefits must include CRP payments in SE income, even if they are not in the trade or business of farming and the CRP contractual obligations are fulfilled by a third party (Notice 2006-108; Pub. 225).

Crop insurance and disaster payments. Crop insurance proceeds received as the result of crop damage are reported as income in the year received. However, cash-basis farmers can elect to report proceeds received in the year the crop is damaged in the following year. The farmer must receive the insurance proceeds in the same year the crops are damaged and show that the income from the crops normally would have been reported in the year following the year the damage occurred [IRC Sec. 451(f)].

Income Deferral—Livestock Sales

One-year deferral. A farmer can elect to postpone reporting the proceeds from the sale of livestock (including poultry) if more animals than usual business practice were sold due to weather-related conditions. The gain from the sale of the additional animals may be included in income the year after the sale [IRC Sec. 451(g)].

(Application for Change in Accounting Method) if the election is not made for the trader's first year of business (Rev. Proc. 2019-43).

Taxing Individuals Who Buy and Sell Securities				
Classification	Investor	Trader	MTM Trader	Dealer
Report Gain/Loss	Sch. D	Sch. D	Form 4797, Part II	Sch. C
Report Expenses	Sch. A ¹	Sch. C ²	Sch. C ²	Sch. C
Report Margin Interest	Sch. A ³	Sch. C ²	Sch. C ²	Sch. C
Eligible for Home Office	No	Yes	Yes	Yes
Securities Gains and Losses Subject to SE Tax	No	No	No	Yes
Earnings for IRA/SEP Contribution	No	No	No	Yes
Wash Sale Rules	Apply	Apply	Do Not Apply	Do Not Apply
Capital Loss Limit	Applies	Applies	Does Not Apply	Does Not Apply
Income Subject to NIIT?	Yes	Yes	Yes	No
QBI Deduction Possible?	No	Yes ⁴	Yes ⁴	Yes ⁴

¹ Miscellaneous itemized deductions subject to the 2%-of-AGI-limitation are disallowed from 2018–2025.


² Assumes taxpayer materially participates. If no material participation (for example, limited partner in a trader partnership) interest expense is investment interest expense on Form 4952, and other expenses are nonpassive losses (if limited partner, reported on Schedule E). Expenses reduce investment income (FSA 200111001).

³ Nonmaterial participants (for example, limited partners) in trading activity are also subject to the investment interest limitations.

⁴ Taxpayer's QBI deduction may be subject to the specified service trade or business limitation [IRC Sec. 199A(d)(2)].

MUTUAL FUNDS

The tax basis of a mutual fund is usually the cash investment, plus reinvested dividends and capital gains, minus returns of capital received. This is true regardless of the type of securities held by the mutual fund.


 **Note:** See *Form 1099-B* on Page 7-6.

Figuring Basis

Shares in mutual funds are often acquired at different times and at different prices. This complicates the process of identifying shares and computing basis if all of the shares in the fund are not sold at the same time. Basis in mutual fund shares is computed using cost basis or, if elected, average basis.

1) **Cost basis.** Actual cost of the mutual fund shares, based on either:

- Specific identification.** The cost of specific shares may be used if the shares sold are "adequately identified." To adequately identify shares, the taxpayer must (1) specify the particular shares to be sold and (2) receive from the agent or broker written confirmation of the identification and sale within a reasonable time.
- First-in, first-out (FIFO).** Oldest shares available in the fund are considered to be sold first.

 **Note:** Specific identification or FIFO may not be used if the average basis method was previously used for any shares in the same mutual fund.

2) **Average basis.** Total cost of shares owned divided by total number of shares owned. The average basis is computed using all shares in the fund regardless of holding period. To determine

holding period, the shares disposed of are considered to be those acquired first (that is, FIFO).

Electing average basis. The procedures for making the election depend on whether the shares are *covered securities*. Generally, mutual fund shares acquired after 2011 are covered securities.

- **Covered securities.** An election, effective for subsequent sales, can be made at any time by notifying the custodian who keeps the account in writing (including electronic format). The broker must also be notified. An election can be revoked by written notice to the custodian by the earlier of one year after making the election or the date of the first sale, transfer or disposition of the shares following the election.
- **Noncovered securities.** The election is made on the taxpayer's return for the first year it applies by showing that the average basis method was used in reporting gain or loss on the sale or other disposition of shares.

Basis Adjustments

Front-end and other sales charges. Pro-rated over number of shares purchased. This increases the basis per share.

Back-end loads or redemption charges. Reduce the proceeds received from the sale of the shares.

Return of Capital or Principal

A distribution that exceeds earnings and profits is a return of investment or capital in the mutual fund. Return of capital distributions reduce basis. If basis in a mutual fund is reduced to zero, any further return of capital is taxable as a capital gain.

Year-End Distributions

Reportable income includes dividend and capital gain distributions received during the year plus any distributions declared by December 31 and paid by January 31 of the following year.

Capital Gain Distributions

Capital gain distributions are paid by mutual funds and real estate investment trusts (REITs). The distributions are reported by the mutual fund or REIT in box 2a of Form 1099-DIV. The mutual fund or REIT making the distribution will also report how much of the distribution is from unrecovered Section 1250 gain (box 2b), Section 1202 gain (box 2c), or collectibles gain (box 2d).

Reporting capital gain distributions. Capital gain distributions are generally reported on Schedule D. But, Schedule D does not have to be filed with the tax return if:

- 1) The only amounts required to be reported on Schedule D are capital gain distributions from box 2a of Form(s) 1099-DIV and
- 2) None of the Forms 1099-DIV have an amount in box 2b, box 2c or box 2d or were received as a nominee.

If both of the above apply, enter the total capital gain distributions (from box 2a of Forms 1099-DIV) on line 6 of Form 1040 and check the box on that line. If the taxpayer received capital gain distributions as a nominee, report on Schedule D, line 13, only the amount that belongs to the taxpayer. Attach a statement showing the full amount received by the taxpayer and the amount received as a nominee.

Undistributed Capital Gains

Undistributed capital gains occur when a mutual fund company retains the gains from the sale of securities. Taxpayers must include their share of income on line 11 of Schedule D. Taxpayers are allowed a credit for the amount of tax paid by the mutual fund company on line 13 of Form 1040, Schedule 3. Form 2439 (Notice to Shareholder of Undistributed Long-Term Capital Gains), sent to the taxpayer by the mutual fund company, lists these amounts. Copy B of Form 2439 is attached to the shareholder's tax return.

Amount realized on sale (foreclosure) of property depends on type of financing:

- **Nonrecourse debt.** The borrower is not personally liable to repay the debt even if the value of the property is less than the outstanding debt. The amount realized is the full amount of debt canceled by the transfer of property.
- **Recourse debt.** The borrower is personally liable to pay any amount of the debt not satisfied by the value of the property. The amount realized is the lesser of the debt canceled or the FMV of the transferred property.

Cancellation of Debt (COD) Income

A borrower who is personally liable on the debt (recourse debt) may also have COD income when property securing the debt is foreclosed on, if the remaining loan balance is forgiven. The COD income equals the excess (if any) of the loan balance over the property's FMV. This income is separate from any gain or loss realized from the foreclosure.

Example: Chris bought a second home for \$150,000. He paid \$20,000 down and borrowed the remaining \$130,000. Chris was not personally liable for the loan (nonrecourse), but pledged the property as security. When the balance due on Chris' loan was \$100,000, the lender foreclosed because he had stopped making payments. The property's FMV was \$90,000. Chris reports the foreclosure as a sale as follows:

Amount realized.....	\$ 100,000
Basis.....	(150,000)
Loss on foreclosure (nondeductible personal loss)	\$ (50,000)

Variation: Now assume Chris was personally liable for the loan (recourse debt). The lender takes the property in full satisfaction of the debt. In this case, Chris realizes a \$60,000 loss of the foreclosure, as follows:

Amount realized (lesser of canceled debt or FMV)	\$ 90,000
Basis.....	(150,000)
Loss on foreclosure (nondeductible personal loss)	\$ (60,000)

Chris also must report \$10,000 of COD income on line 8 of Form 1040, Schedule 1 (unless an exception applies—see *Report COD income* on Page 7-23), which equals the excess of the debt satisfied over the property's FMV (\$100,000 – \$90,000 = \$10,000). This is the amount of the debt for which he was personally liable and that was forgiven in the transaction.

Report COD income. COD income related to a business or rental is reported as business or rental income (Sch. C, E, F, Form 4835) (IRS Pub. 4681). Report the income from cancellation of a nonbusiness debt as other income on line 8 of Form 1040, Schedule 1.

Exceptions: Generally, debt forgiveness in connection with real property is taxable, unless one of the exclusions under IRC Sec. 108 applies—that is, the debt forgiveness:

- 1) Is intended as a gift,
- 2) Occurs under Title 11 bankruptcy,
- 3) Occurs when the taxpayer is insolvent,
- 4) Is qualified farm indebtedness, or
- 5) Is qualified real property business indebtedness (other than C corporations).

If an exclusion applies, report the full amount of COD income on Form 982 [Reduction of Tax Attributes Due to Discharge of Indebtedness (and Section 1082 Basis Adjustment)]. Then, carry the taxable amount (if any) to the proper place on the return.

Note: Qualified principal residence indebtedness discharged after 2020 is not excluded from income unless it is subject to a written arrangement entered into before January 1, 2021 [IRC Sec. 108(a)(1)(E)(ii)].

Forms 1099-A and 1099-C

A lender who acquires an interest in property in a foreclosure or repossession generally reports the information needed to figure gain or loss on Form 1099-A (Acquisition or Abandonment of Secured Property). This form includes a box that indicates whether the debt was recourse or nonrecourse. However, a lender that also cancels part of the debt must file Form 1099-C (Cancellation of Debt). In that case, the lender may include any information about the foreclosure or repossession on that form instead of on Form 1099-A.

Observation: Lenders do not always forgive the debt when property securing recourse debt is foreclosed on. Instead, they may pursue a deficiency against the borrower. Here, they would issue a Form 1099-A to report the foreclosure, but not a Form 1099-C, since the borrower has not yet been relieved of liability for any amount of debt over the property's FMV.

Report the sale. A foreclosure of business or rental property is reported on Form 4797. Investment-use or personal-use property (including a personal residence, unless there is a fully excludable gain) is reported on Form 8949 (and carried to Schedule D). Losses from personal-use property are not deductible.

LIKE-KIND EXCHANGES

Form 8824; see also IRC Sec. 1031 and
IRS Pubs. 544 and 550

For exchanges completed after 2017, the TCJA provides that like-kind exchanges are available only with respect to real property held for productive use in a trade or business or for investment (that is, not held primarily for sale). Pre-TCJA, like-kind exchanges were also available to personal property held for productive use in a trade or business or for investment.

No gain or loss is recognized if real estate held for use in a trade or business or for investment is exchanged solely for property of a like kind to be held either for use in trade or business or for investment. However, the exchange must still be reported on Form 8824. Any gain or loss realized, but not recognized, adjusts the basis of like-kind property received in the exchange.

Like-Kind Property

Like-kind property means property of the same nature or character, not necessarily of the same grade or quality. For example, improved real estate can be exchanged for unimproved real estate.

Exchanges can include business for business, business for investment, investment for business, or investment for investment property.

Nonrecognition treatment for like-kind exchanges is mandatory rather than elective. A taxpayer who wants to recognize a realized gain or loss must structure the transaction around the statutory requirements for a like-kind exchange.

Other Highlights

Related taxpayers. If related taxpayers exchange properties and either party disposes of the exchanged property within two years, gain or loss deferred under the like-kind exchange rules is recognized in the year the disqualifying disposition occurs.

Boot. Property that is not like-kind property (including cash) included in the exchange is *boot*. The receipt of boot will cause a realized gain on an exchange to be recognized. Gain is realized if the FMV of the property received exceeds the tax basis of the property given. The amount of gain to recognize is the lesser of

The recharacterization of self-charged interest does not apply to other types of self-charged expenses (for example, management fees or rent paid to a partner). Only self-charged interest is recharacterized [*Hillman*, 88 AFTR 2d 2001-5292 (4th Cir. 2001)].

SPECIAL PASSIVE LOSS RULES FOR RENTAL ACTIVITIES

\$25,000 Special Allowance for Rental Real Estate

Up to \$25,000 in passive losses from rental real estate can be deducted each year against nonpassive income. The following rules apply:

- 1) The taxpayer (or spouse) must actively participate in the rental activity. This means the taxpayer and/or spouse own at least 10% of the rental property and have substantial involvement in managing the rental. **Note:** Active participation is a lower standard of involvement than material participation. Taxpayers making management decisions or arranging for others to provide services (such as repairs) may be treated as actively participating if these actions are significant and bona fide. Management decisions that may count as active participation include: approving new tenants, deciding on rental terms, approving capital or repair expenditures, and other similar decisions.
- 2) A limited partner cannot meet the active participation test.
- 3) The amount of loss eligible for the \$25,000 allowance is determined by netting income and losses from *all* of the taxpayer's rental real estate activities in which the taxpayer actively participates.



Note: Rental real estate is generally a passive activity, unless the taxpayer is a real estate professional (see *Real Estate Professionals* on Page 8-7). Also, certain short-term rentals are not automatically treated as passive. See *Rental Activities Not Automatically Treated as Passive* on Page 8-8.

AGI phase-out. The \$25,000 special allowance is reduced by 50% of the amount by which the taxpayer's modified adjusted gross income (AGI) exceeds \$100,000. Thus, the allowance is reduced to zero when modified AGI reaches \$150,000. The phase-out is computed and reported on Part II of Form 8582.

Modified AGI equals AGI without:

- 1) Passive income or loss included on Form 8582 (including an overall loss from a publicly traded partnership).
- 2) Taxable social security and tier 1 railroad retirement benefits.
- 3) Deduction for contributions to IRAs and certain other qualified retirement plans.
- 4) Interest income exclusion for U.S. savings bonds used for higher education expenses.
- 5) Income excluded under an employer's adoption assistance program.
- 6) Any rental real estate loss allowed to real estate professionals.
- 7) Deduction for SE tax.
- 8) Deduction allowed for interest on student loans.
- 9) Deduction for qualified tuition and related expenses ~~(if available)~~.

Example #1: Fred and Ginger are married taxpayers who actively participate in a rental real estate activity. They have \$75,000 in wages, \$250 in interest, and a rental loss of \$1,500.

Fred and Ginger can deduct the rental loss on their joint tax return because they actively participate in the rental activity and their modified AGI (\$75,000 + \$250) is below the phase-out range.

Example #2: Ted acquired an apartment building in 2019 and incurred a \$35,000 loss. Ted is not a real estate professional and has no other passive activities. He actively participates in operating the building. His 2019 income before any passive loss limitation consists of the following:

Form W-2 wages.....	\$ 20,000
Schedule C proprietorship.....	100,000
Schedule E rental loss	(35,000)
IRA deduction.....	(2,000)
SE tax deduction.....	(7,065)
Tentative AGI.....	\$ 75,935

Ted's modified AGI is \$120,000 (\$75,935 + 35,000 + 2,000 + 7,065). The allowable rental loss is \$15,000 [\$25,000 – 50% × (\$120,000 – \$100,000)].

Married filing separately:

- \$25,000 special allowance is reduced to \$12,500.
- AGI phase-out begins at \$50,000 instead of \$100,000.

Married taxpayers filing separate returns must live apart for the entire year to be eligible for the special allowance. If they file separate returns but do not live apart for the entire year, the special allowance is zero.

Credits and the \$25,000 Special Allowance

Taxpayers who qualify for the special allowance can use credits from active participation rental activities to offset tax liability created by nonpassive income. To calculate the amount of the \$25,000 special allowance utilized by a credit, the \$25,000 must be converted to an equivalent amount of tax based on the taxpayer's marginal tax rate.

Real Estate Professionals

Real estate professionals must treat rental real estate activities in which they materially participate as nonpassive activities. Therefore, they can deduct these rental real estate losses from other nonpassive income. The \$25,000 special allowance does not apply to these taxpayers. See *3.8% Net Investment Income Tax* on Page 12-14 for additional rules for real estate professionals.

Real estate professionals are individuals who meet both of these conditions:

- 1) More than 50% of their personal services during the tax year are performed in real property trades or businesses in which they materially participate and
 - 2) They spend more than 750 hours of service during the year in real property trades or businesses in which they materially participate.
- Depending on the facts and circumstances, a real property trade or business for this test may consist of one or more of the trades or businesses listed at *Real property trades or businesses* on Page 8-7 [Reg. 1.469-9(d)].



Real property trades or businesses. Any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business.

IRS Ruling: The IRS distinguished brokerage services performed by licensed real estate agents from those performed by mortgage brokers in qualifying for the real property trade or business exception to the PAL rules. A real estate agent brings together buyers and sellers of real property and negotiates contracts of sale between them and therefore, is engaged in a real property trade or business. On the other hand, a mortgage broker brings together lenders and borrowers for financing the transactions, which the IRS determined is not a real property trade or business under the PAL rules (CCA 201504010).

Partner Codes for Schedule K-1 (Form 1065)

This list identifies the codes used on Schedule K-1 for all partners and provides summarized reporting information for partners who file Form 1040 or 1040-SR. For detailed reporting and filing information, see the separate Partner's Instructions for Schedule K-1 and the instructions for your income tax return.

	Code	Report on	
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows.	H Undistributed capital gains credit	Schedule 3 (Form 1040 or 1040-SR), line 13, box a	
<i>Report on</i>	I Biofuel producer credit	See the Partner's Instructions	
Passive loss	J Work opportunity credit	} See the Partner's Instructions	
Passive income	K Disabled access credit		
Nonpassive loss	L Empowerment zone employment credit		
Nonpassive income	M Credit for increasing research activities		
2. Net rental real estate income (loss)	N Credit for employer social security and Medicare taxes		
3. Other net rental income (loss)	O Backup withholding		
Net income	P Other credits		
Net loss	16. Foreign transactions		
4a. Guaranteed payment Services	A Name of country or U.S. possession		} Form 1116, Part I
4b. Guaranteed payment Capital	B Gross income from all sources		
4c. Guaranteed payment Total	C Gross income sourced at partner level		
5. Interest income	<i>Foreign gross income sourced at partnership level</i>		
6a. Ordinary dividends	D Reserved for future use	} Form 1116, Part I	
6b. Qualified dividends	E Foreign branch category		
6c. Dividend equivalents	F Passive category		
7. Royalties	G General category		
8. Net short-term capital gain (loss)	H Other		
9a. Net long-term capital gain (loss)	<i>Deductions allocated and apportioned at partner level</i>		
9b. Collectibles (28%) gain (loss)	I Interest expense	Form 1116, Part I	
9c. Unrecaptured section 1250 gain	J Other	Form 1116, Part I	
10. Net section 1231 gain (loss)	<i>Deductions allocated and apportioned at partnership level to foreign source income</i>		
11. Other income (loss)	K Reserved for future use	} Form 1116, Part I	
<i>Code</i>	L Foreign branch category		
A Other portfolio income (loss)	M Passive category		
B Involuntary conversions	N General category		
C Sec. 1256 contracts & straddles	O Other		
D Mining exploration costs recapture	Other information		
E Cancellation of debt	P Total foreign taxes paid	Form 1116, Part II	
F Section 743(b) positive adjustments	Q Total foreign taxes accrued	Form 1116, Part II	
G Section 965(a) inclusion	R Reduction in taxes available for credit	Form 1116, line 12	
H Income under subpart F (other than inclusions under sections 951A and 965)	S Foreign trading gross receipts	Form 8873	
I Other income (loss)	T Extraterritorial income exclusion	Form 8873	
12. Section 179 deduction	U through V	Reserved for future use	
13. Other deductions	W Section 965 information	} See the Partner's Instructions	
A Cash contributions (60%)	X Other foreign transactions		
B Cash contributions (30%)	17. Alternative minimum tax (AMT) items		
C Noncash contributions (50%)	A Post-1986 depreciation adjustment	} See the Partner's Instructions and the Instructions for Form 6251	
D Noncash contributions (30%)	B Adjusted gain or loss		
E Capital gain property to a 50% organization (30%)	C Depletion (other than oil & gas)		
F Capital gain property (20%)	D Oil, gas, & geothermal—gross income		
G Contributions (100%)	E Oil, gas, & geothermal—deductions		
H Investment interest expense	F Other AMT items		
I Deductions—royalty income	18. Tax-exempt income and nondeductible expenses		
J Section 59(e)(2) expenditures	A Tax-exempt interest income	Form 1040 or 1040-SR, line 2a	
K Excess business interest expense	B Other tax-exempt income	See the Partner's Instructions	
L Deductions—portfolio (other)	C Nondeductible expenses	See the Partner's Instructions	
M Amounts paid for medical insurance	19. Distributions		
N Educational assistance benefits	A Cash and marketable securities	} See the Partner's Instructions	
O Dependent care benefits	B Distribution subject to section 737		
P Preproductive period expenses	C Other property		
Q Commercial revitalization deduction from rental real estate activities	20. Other information		
R Pensions and IRAs	A Investment income	Form 4952, line 4a	
S Reforestation expense deduction through U	B Investment expenses	Form 4952, line 5	
V Section 743(b) negative adjustments	C Fuel tax credit information	Form 4136	
W Other deductions	D Qualified rehabilitation expenditures (other than rental real estate)	} See the Partner's Instructions	
X Section 965(c) deduction	E Basis of energy property through G		
14. Self-employment earnings (loss)	H Recapture of investment credit		See Form 4255
Note: If you have a section 179 deduction or any partner-level deductions, see the Partner's Instructions before completing Schedule SE.	I Recapture of other credits		See the Partner's Instructions
A Net earnings (loss) from self-employment	J Look-back interest—completed long-term contracts		See Form 8697
B Gross farming or fishing income	K Look-back interest—income forecast method		See Form 8866
C Gross non-farm income	L Dispositions of property with section 179 deductions	} See the Partner's Instructions	
15. Credits	M Recapture of section 179 deduction		
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	N Interest expense for corporate partners through Y		
B Low-income housing credit (other) from pre-2008 buildings	Z Section 199A information		
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings	AA Section 704(c) information		
D Low-income housing credit (other) from post-2007 buildings	AB Section 751 gain (loss)		
E Qualified rehabilitation expenditures (rental real estate)	AC Section 1(h)(5) gain (loss)		
F Other rental real estate credits	AD Deemed section 1250 unrecaptured gain		
G Other rental credits	AE Excess taxable income		
	AF Excess business interest income		
	AG Gross receipts for section 59A(e)		
	AH Other information		

Shareholder Codes For Schedule K-1 (Form 1120-S)

Schedule K-1 (Form 1120-S) 2019

Page **2**

This list identifies the codes used on Schedule K-1 for all shareholders and provides summarized reporting information for shareholders who file Form 1040 or 1040-SR. For detailed reporting and filing information, see the separate Shareholder's Instructions for Schedule K-1 and the instructions for your income tax return.

	<i>Code</i>	<i>Report on</i>	
1. Ordinary business income (loss). Determine whether the income (loss) is passive or nonpassive and enter on your return as follows:			
<i>Report on</i>			
Passive loss	See the Shareholder's Instructions		
Passive income	Schedule E, line 28, column (h)		
Nonpassive loss	See the Shareholder's Instructions		
Nonpassive income	Schedule E, line 28, column (k)		
2. Net rental real estate income (loss)	See the Shareholder's Instructions		
3. Other net rental income (loss)			
Net income	Schedule E, line 28, column (h)		
Net loss	See the Shareholder's Instructions		
4. Interest income	Form 1040 or 1040-SR, line 2b		
5a. Ordinary dividends	Form 1040 or 1040-SR, line 3b		
5b. Qualified dividends	Form 1040 or 1040-SR, line 3a		
6. Royalties	Schedule E, line 4		
7. Net short-term capital gain (loss)	Schedule D, line 5		
8a. Net long-term capital gain (loss)	Schedule D, line 12		
8b. Collectibles (28%) gain (loss)	28% Rate Gain Worksheet, line 4 (Schedule D instructions)		
8c. Unrecaptured section 1250 gain	See the Shareholder's Instructions		
9. Net section 1231 gain (loss)	See the Shareholder's Instructions		
10. Other income (loss)			
<i>Code</i>			
A Other portfolio income (loss)	See the Shareholder's Instructions		
B Involuntary conversions	See the Shareholder's Instructions		
C Sec. 1256 contracts & straddles	Form 6781, line 1		
D Mining exploration costs recapture	See Pub. 535		
E Reserved for future use			
F Section 965(a) inclusion			
G Income under subpart F (other than inclusions under sections 951A and 965)	} See the Shareholder's Instructions		
H Other income (loss)			
11. Section 179 deduction	See the Shareholder's Instructions		
12. Other deductions			
A Cash contributions (60%)	} See the Shareholder's Instructions		
B Cash contributions (30%)			
C Noncash contributions (50%)			
D Noncash contributions (30%)			
E Capital gain property to a 50% organization (30%)			
F Capital gain property (20%)			
G Contributions (100%)			
H Investment interest expense		Form 4952, line 1	
I Deductions—royalty income		Schedule E, line 19	
J Section 59(e)(2) expenditures		See the Shareholder's Instructions	
K Section 965(c) deduction	See the Shareholder's Instructions		
L Deductions—portfolio (other)	Schedule A, line 16		
M Preproductive period expenses	See the Shareholder's Instructions		
N Commercial revitalization deduction from rental real estate activities	See Form 8582 instructions		
O Reforestation expense deduction	See the Shareholder's Instructions		
P through R	Reserved for future use		
S Other deductions	See the Shareholder's Instructions		
13. Credits			
A Low-income housing credit (section 42(j)(5)) from pre-2008 buildings	} See the Shareholder's Instructions		
B Low-income housing credit (other) from pre-2008 buildings			
C Low-income housing credit (section 42(j)(5)) from post-2007 buildings			
D Low-income housing credit (other) from post-2007 buildings			
E Qualified rehabilitation expenditures (rental real estate)			
F Other rental real estate credits			
G Other rental credits			
H Undistributed capital gains credit		Schedule 3 (Form 1040 or 1040-SR), line 13, box a	
I Biofuel producer credit		} See the Shareholder's Instructions	
J Work opportunity credit			
K Disabled access credit			
L Empowerment zone employment credit			
M Credit for increasing research activities			
N Credit for employer social security and Medicare taxes	} See the Shareholder's Instructions		
O Backup withholding			
P Other credits			
14. Foreign transactions			
A Name of country or U.S. possession	} Form 1116, Part I		
B Gross income from all sources			
C Gross income sourced at shareholder level			
<i>Foreign gross income sourced at corporate level</i>			
D Reserved for future use	} Form 1116, Part I		
E Foreign branch category			
F Passive category			
G General category			
H Other			
<i>Deductions allocated and apportioned at shareholder level</i>			
I Interest expense	Form 1116, Part I		
J Other	Form 1116, Part I		
<i>Deductions allocated and apportioned at corporate level to foreign source income</i>			
K Reserved for future use	} Form 1116, Part I		
L Foreign branch category			
M Passive category			
N General category			
O Other			
<i>Other information</i>			
P Total foreign taxes paid	Form 1116, Part II		
Q Total foreign taxes accrued	Form 1116, Part II		
R Reduction in taxes available for credit	Form 1116, line 12		
S Foreign trading gross receipts	Form 8873		
T Extraterritorial income exclusion	Form 8873		
U Section 965 information	See the Shareholder's Instructions		
V Other foreign transactions	See the Shareholder's Instructions		
15. Alternative minimum tax (AMT) items			
A Post-1986 depreciation adjustment	} See the Shareholder's Instructions and the Instructions for Form 6251		
B Adjusted gain or loss			
C Depletion (other than oil & gas)			
D Oil, gas, & geothermal—gross income			
E Oil, gas, & geothermal—deductions			
F Other AMT items			
16. Items affecting shareholder basis			
A Tax-exempt interest income	Form 1040 or 1040-SR, line 2a		
B Other tax-exempt income	} See the Shareholder's Instructions		
C Nondeductible expenses			
D Distributions			
E Repayment of loans from shareholders			
F Other information			
17. Other information			
A Investment income	Form 4952, line 4a		
B Investment expenses	Form 4952, line 5		
C Qualified rehabilitation expenditures (other than rental real estate)	See the Shareholder's Instructions		
D Basis of energy property	See the Shareholder's Instructions		
E Recapture of low-income housing credit (section 42(j)(5))	Form 8611, line 8		
F Recapture of low-income housing credit (other)	Form 8611, line 8		
G Recapture of investment credit	See Form 4255		
H Recapture of other credits	See the Shareholder's Instructions		
I Look-back interest—completed long-term contracts	See Form 8697		
J Look-back interest—income forecast method	See Form 8866		
K Dispositions of property with section 179 deductions	} See the Shareholder's Instructions		
L Recapture of section 179 deduction			
M through U			
V Section 199A information			
W through Z	Reserved for future use		
AA Excess taxable income	} See the Shareholder's Instructions		
AB Excess business interest income			
AC Other information			

disposed of or abandoned by the lessor at the termination of the lease [IRC Sec. 168(i)(8)].

QUALIFIED IMPROVEMENT PROPERTY

Note: The TCJA changed the definition of qualified improvement property. It also eliminated the former categories of: (1) qualified leasehold improvement property, (2) qualified restaurant property and (3) qualified retail improvement property.

Qualified improvement property must meet the following tests [IRC Sec. 168(e)(6)(A)]:

- 1) The improvement is to an interior portion of a building that is nonresidential real property.
- 2) The improvement is placed in service after the date the building was first placed in service.

Qualified improvement property does not include expenditures attributable to [IRC Sec. 168(e)(6)(B)]:

- Enlarging the building.
- Elevators or escalators.
- The internal structural framework of the building.

Item	IRC Sec.	
Depreciation Method	168(b)(3)	SL
Recovery Period	168(e)(3)(E) ¹	39 or 15 yr ¹
Eligible for Special (Bonus) Depreciation?	168(k)(2)	Maybe ^{1,2}
Eligible for Section 179 Expensing?	179(f)	Yes ³

¹ See Caution below.
² If MACRS property with a recovery period of 20 years or less—100% special (bonus) depreciation for 2019 [see *Special (Bonus) Depreciation* on Page 10-4].
³ See *Section 179 Expensing—Qualified Real Property* on Page 10-7 for rules.

Caution: The 15-year recovery period reflects Congressional intent according to the TCJA Conference committee report. However, the TCJA failed to amend the text of IRC Sec. 168(e)(3)(E) to reflect this change. In the preamble to the final bonus depreciation regulations (issued September 2019), the IRS states that for qualified improvement property placed in service after 2017 to be eligible for bonus depreciation, a legislative change must be enacted to provide for a recovery period of 20 years or less (TD 9874). Tax professionals should watch for technical correction legislation.

CORRECTING DEPRECIATION ERRORS

File Form 3115 (Application for Change in Accounting Method) to report depreciation changes that qualify as accounting method changes. Changes that are not accounting method changes are reported on amended returns.

Depreciation corrections made on Form 3115:

- The treatment of an asset from nondepreciable to depreciable or vice versa.
- Change to the depreciation method, recovery period, or convention of a MACRS asset.
- Change from improperly expensing to capitalizing an asset.

Note: Generally, an impermissible accounting method is not established until the taxpayer uses it for two consecutive tax years. Thus, an impermissible accounting method used on only one return is generally corrected on an amended return. However, taxpayers can change an impermissible depreciation accounting method used on a single return either by filing an amended return or by filing a Form 3115 (Rev. Proc. 2019-43, Sec. 6.01).

Depreciation corrections made on an amended return.

- Correcting mathematical or posting errors.
- A change in useful life (non-MACRS assets).

- A change in the placed-in-service date.
- Changing a depreciation method that has only been used on one return.

Automatic permission for changing depreciation accounting method. The IRS grants automatic consent to certain accounting method changes, including changing from an impermissible to permissible method of computing depreciation (which enables taxpayers who have claimed less than the allowable amount of depreciation to catch up to the allowable amount). Form 3115 (Application for Change in Accounting Method) is filled out in duplicate. The original is attached to a timely filed tax return (including extensions) for the year of change. A copy of the signed Form 3115 must also be filed with the IRS office shown in the address chart in the Form 3115 instructions (revised December 2018). There is no user fee under this procedure.

Caution: Automatic permission is not given to change from expensing an item to capitalizing and depreciating it.

A Section 481(a) adjustment is usually required when an accounting method is changed to ensure that income or expense items are not omitted or duplicated. It is calculated on Form 3115. The 481(a) adjustment is then reported as income (or a deduction) on the tax return, starting in the year of change. A negative adjustment (depreciation in previous years was understated) is recognized in full that year. A positive adjustment (depreciation was overstated) is spread over four years. *Exception:* A positive adjustment less than \$50,000 can be recognized in the year of change (Rev. Proc. 2015-13, Sec. 7.03).

Note: The Section 481(a) adjustment is computed for all prior tax years, not just those that are still open (Rev. Proc. 2015-13, Sec. 2.06).

Example: Brad purchased a rental duplex on January 1, 2016 for \$250,000 (not including land). While preparing the 2019 return, the preparer discovers that no depreciation had been claimed for the duplex on the previous three returns. Straight-line depreciation over 27.5 years for the years 2016–2018 equals \$26,894 (\$9,091 per year with mid-month convention in 2016). A Form 3115 to change the accounting method is attached to Brad's 2019 Form 1040. The negative Section 481(a) adjustment of \$26,894 is reported on his Schedule E reporting income and deductions from the duplex. 2019 depreciation of \$9,091 is claimed on Form 4562.

INTANGIBLE ASSETS

Certain intangible assets can be amortized over 15 years beginning in the month they are acquired, even if there is no way to determine their useful life. 15-year amortization applies to the following intangible assets that are purchased by a taxpayer in connection with the acquisition of a trade or business (IRC Sec. 197):

- Goodwill and going concern value.
- Workforce in place.
- Covenant not to compete.
- Copyrights and patents.
- Franchise, trademark, trade names.
- Information bases such as client files, customer lists and direct mail and telemarketing lists.
- Contracts with customers or suppliers (unless the contracts have a fixed duration and are nonrenewable).
- Computer software not available to the general public.
- Mortgage servicing rights.

Note: The following assets are amortizable or depreciable even if not acquired as part of a business acquisition:

- Covenant not to compete.
- Franchise, trademark and trade name.
- Interest in a patent or copyright.
- Interest in a sound recording, book, movie or videotape.
- License or permit (such as liquor license or taxi medallion).
- Mortgage servicing rights.

MACRS DEPRECIATION TABLES

3-Year MACRS

See MACRS tables on Page 10-2.

For property placed in service after 1986

200% Declining Balance

- Regular tax depreciation for personal property with three-year recovery period (includes all racehorses (placed in service after 2008 and before 2021), racehorses over two years old (placed in service before 2009 and after 2017), other horses more than 12 years old, qualified rent-to-own property, tractors for over-the-road use, qualified Indian reservation property placed in service in 1994–2020 that would otherwise have a 5-year recovery period, and assets used in certain activities).

150% Declining Balance

- Regular tax depreciation for three-year assets used in a farming business placed in service before 2018.
- AMT depreciation for property with three-year recovery period placed in service after 1998.
- Can be elected for regular tax.

Year	Half-Year Convention	Mid-Quarter Convention— Quarter in Which Acquired				Year	Half-Year Convention	Mid-Quarter Convention— Quarter in Which Acquired			
		1	2	3	4			1	2	3	4
1.....	33.33%	58.33%	41.67%	25.00%	8.33%	1.....	25.00%	43.75%	31.25%	18.75%	6.25%
2.....	44.45	27.78	38.89	50.00	61.11	2.....	37.50	28.13	34.38	40.63	46.88
3.....	14.81	12.35	14.14	16.67	20.37	3.....	25.00	25.00	25.00	25.00	25.00
4.....	7.41	1.54	5.30	8.33	10.19	4.....	12.50	3.12	9.37	15.62	21.87

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

Note: For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Mid-quarter convention disposal* on Page 10-9.

5-Year MACRS

See MACRS tables on Page 10-2.

For property placed in service after 1986

200% Declining Balance

- Regular tax depreciation for personal property with five-year recovery period (includes autos, computers, typewriters, copiers, and assets used in certain activities).

150% Declining Balance

- Regular tax depreciation for five-year assets used in a farming business placed in service before 2018.
- AMT depreciation for property with five-year recovery period placed in service after 1998.
- Can be elected for regular tax.

Year	Half-Year Convention	Mid-Quarter Convention— Quarter in Which Acquired				Year	Half-Year Convention	Mid-Quarter Convention— Quarter in Which Acquired			
		1	2	3	4			1	2	3	4
1.....	20.00%	35.00%	25.00%	15.00%	5.00%	1.....	15.00%	26.25%	18.75%	11.25%	3.75%
2.....	32.00	26.00	30.00	34.00	38.00	2.....	25.50	22.13	24.38	26.63	28.88
3.....	19.20	15.60	18.00	20.40	22.80	3.....	17.85	16.52	17.06	18.64	20.21
4.....	11.52	11.01	11.37	12.24	13.68	4.....	16.66	16.52	16.76	16.56	16.40
5.....	11.52	11.01	11.37	11.30	10.94	5.....	16.66	16.52	16.76	16.57	16.41
6.....	5.76	1.38	4.26	7.06	9.58	6.....	8.33	2.06	6.29	10.35	14.35

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

Note: For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Mid-quarter convention disposal* on Page 10-9.

7-Year MACRS

See MACRS tables on Page 10-2.

For property placed in service after 1986

200% Declining Balance

- Regular tax depreciation for personal property with seven-year recovery period (includes office furniture and fixtures, horses not eligible for a three-year recovery period, and assets used in certain activities).

150% Declining Balance

- Regular tax depreciation for seven-year assets used in a farming business placed in service before 2018.
- AMT depreciation for property with seven-year recovery period placed in service after 1998.
- Can be elected for regular tax.

Year	Half-Year Convention	Mid-Quarter Convention— Quarter in Which Acquired				Year	Half-Year Convention	Mid-Quarter Convention— Quarter in Which Acquired			
		1	2	3	4			1	2	3	4
1.....	14.29%	25.00%	17.85%	10.71%	3.57%	1.....	10.71%	18.75%	13.39%	8.04%	2.68%
2.....	24.49	21.43	23.47	25.51	27.55	2.....	19.13	17.41	18.56	19.71	20.85
3.....	17.49	15.31	16.76	18.22	19.68	3.....	15.03	13.68	14.58	15.48	16.39
4.....	12.49	10.93	11.97	13.02	14.06	4.....	12.25	12.16	12.22	12.27	12.87
5.....	8.93	8.75	8.87	9.30	10.04	5.....	12.25	12.16	12.22	12.28	12.18
6.....	8.92	8.74	8.87	8.85	8.73	6.....	12.25	12.16	12.22	12.27	12.18
7.....	8.93	8.75	8.87	8.86	8.73	7.....	12.25	12.16	12.23	12.28	12.19
8.....	4.46	1.09	3.34	5.53	7.64	8.....	6.13	1.52	4.58	7.67	10.66

These percentages incorporate the switch from declining-balance (DB) to straight-line (SL) method when SL yields a larger deduction.

Note: For early disposition, multiply the depreciation obtained from these tables by ½ if half-year convention applied. For a disposition of property under the mid-quarter convention, see *Mid-quarter convention disposal* on Page 10-9.

the business and personal portions. Total depreciation is subtracted from the business portion of the basis.

When the business-use percentage varies from year to year, use the following formula to determine the business-use percentage for the year of sale.

$$\frac{\text{Total Business Miles All Years}}{\text{Total Miles Driven All Years}} = \text{Business-Use Percentage}$$

Example: Bob used the standard mileage rate method to report expenses from his used car purchased on August 2, 2018 for \$18,000. He drove 9,000 and 19,230 business miles during 2018 and 2019, which represented 80% business use. On December 24, 2019, Bob sells the car.

Bob's adjusted basis for a sale or trade:

	Total	80% Business	20% Personal
Original cost or basis.....	\$ 18,000	\$ 14,400	\$ 3,600
Less: Depreciation component of standard mileage rate:			
2018 (9,000 × 25¢ per mile).....	(2,250)	(2,250)	0
2019 (19,230 × 26¢ per mile).....	(5,000)	(5,000)	0
Adjusted basis of car.....	\$ 10,750	\$ 7,150	\$ 3,600
Bob sells the car for \$12,500:			
	Total	80% Business	20% Personal
Sales proceeds.....	\$ 12,500	\$ 10,000	\$ 2,500
Adjusted basis.....	(10,750)	(7,150)	(3,600)
Gain (loss) on sale.....	\$ 1,750	\$ 2,850	(1,100)

The \$2,850 gain on the business portion is a taxable Section 1231 gain (subject to Section 1245 recapture) and is reported on Form 4797. The \$1,100 loss on the personal portion is a nondeductible personal loss and is not reported on Bob's return. If a gain had been realized on the personal portion, it would have been reported as long-term capital gain on Form 8949.

Manufacturers' certification. The IRS will acknowledge a manufacturer's (or in the case of a foreign vehicle manufacturer, its domestic distributor's) certification that a vehicle meets the standards to qualify for the credit. Taxpayers may rely on such a certification (Notice 2009-89). A list of qualified vehicles and the credit amount is available at www.irs.gov. Search for "plug-in electric drive motor vehicles."

Phase-out based on vehicle sales. The credit phases out when the manufacturer has sold 200,000 qualifying vehicles after 2009 [IRC Sec. 30D(e)]. For General Motors, LLC and Tesla, Inc. the phaseout period begins in 2019. Search for "plug-in electric drive motor vehicles quarterly sales" at www.irs.gov to check the status of manufacturer's quarterly sales.

Reporting

The credit for plug-in electric drive motor vehicles is claimed on Form 8936. The portion of the credit attributable to business/investment use of the vehicle is part of the general business credit. The remainder is a personal nonrefundable credit that can offset regular tax and AMT. It is reported on Form 1040, Schedule 3, line 6 (check box c and write "8936" in the space next to that box). Any part of the personal-use portion of the credit that cannot be used is lost. It cannot be carried over to other years.

Line 4b of Form 8936 is used for GM and Tesla vehicles purchased after 2018 that are subject to the credit phaseout.

Recapture

The IRS has been instructed to issue regulations on the rules for recapturing the credits for plug-in vehicles that cease to qualify for the credits [IRC Sec. 30D(f)(5)]. The amount recaptured is reported on line 8 of Form 1040, Schedule 2, checking box c, and in the space next to the box enter "8936R." As of the date of this publication, no regulations have been issued on how to compute the recapture amount.

ALTERNATIVE MOTOR VEHICLE TAX CREDIT

Form 8910

The credit for qualified fuel cell motor vehicles is available for vehicles propelled by power derived from one or more cells that convert energy directly into electricity. Taxpayers may generally rely on the manufacturer's (or, if a foreign manufacturer, its domestic distributor's) certification that a make, model, and model year of a vehicle qualifies for the credit and the amount of the credit allowable for that vehicle (Notice 2008-33).

CREDITS FOR PLUG-IN VEHICLES

Form 8936

Plug-In Electric Drive Motor Vehicles

Taxpayers can claim a credit for each new qualifying vehicle purchased for use or lease, but not for resale. The credit amount ranges from \$2,500 to \$7,500. The portion of the credit attributable to the business-use percentage of the vehicle is treated as part of the taxpayer's general business credit. The remainder is treated as a nonrefundable personal credit that can offset both regular tax and AMT (IRC Sec. 30D).

Qualifying vehicles are new four-wheeled plug-in electric vehicles manufactured primarily for use on public streets, roads, and highways that meet certain technical requirements and the original use of the vehicle began with the taxpayer. However, the following do not qualify:

- 1) Vehicles manufactured primarily for off-road use (such as golf carts).
- 2) Vehicles weighing 14,000 pounds or more.
- 3) Low-speed vehicles (four-wheeled vehicles that can obtain a speed of 20 but not more than 25 miles per hour and a gross vehicle weight rating of less than 3,000 pounds).

COMMUTING EXPENSES

In general, the costs of commuting between a taxpayer's home and work location are nondeductible personal expenses. The TCJA suspended the itemized deduction for most unreimbursed employee business expenses for 2018–2025 (see *Employee Business Expenses* on Page 9-1 for a limited exception). So, commuting expenses that are employee business expenses are generally no longer deductible, but commuting expenses of self-employed taxpayers may be deductible.

Deductible Commuting

Commuting expenses are allowed in going between a taxpayer's home and work location if (Rev. Rul. 99-7):

- 1) The expense is for going between the taxpayer's home and a temporary work location outside the metropolitan area where the taxpayer lives and normally works,
- 2) The taxpayer has one or more regular work locations away from home and the expenses are for going between home and a temporary work location in the same trade or business, regardless of distance, or
- 3) The taxpayer's home is the taxpayer's principal place of business, and the expenses are for going between home and another work location in the same trade or business, regardless of whether the other work location is regular or temporary and regardless of the distance.

Temporary work location. A work location is considered temporary if employment is realistically expected to last and actually does last for one year or less. See the *Temporary vs. Indefinite Assignment* on Page 9-3.

Practice Tip: Families with more than one student during the year can choose to take the credits on a per-student, per-year basis. For example, the American opportunity credit can be claimed for one student and the lifetime learning credit claimed for another in the same year.

Education savings account (ESA)/qualified tuition program (QTP). A taxpayer can claim an American opportunity credit or lifetime learning credit in the same year that the taxpayer excludes an ESA or QTP distribution from income as long as the same expenses are not used for both benefits. Qualified education expenses (QEE) are reduced in the following order:

- 1) Amounts excluded from income such as scholarships and employer-provided education assistance.
- 2) Amounts used to claim education credits.

Thus, if an education credit is claimed, QEE are first allocated to the credit, and any remaining QEE go toward computing the taxable amount of the distribution from an ESA or QTP.

If a student receives distributions from both an ESA and a QTP that are more than the QEE, the expenses must be allocated between the distributions.

Tuition and fees deduction (if available). A taxpayer may not claim the tuition and fees deduction (if available) if an education credit is claimed for the same student in the same year [IRC Sec. 222(c)(2)(A)]. See *Tuition and Fees Deduction* on Page 13-6 for the deduction's status.

Savings bond interest exclusion. The amount of QEE used to compute an education credit reduces the amount used in computing the interest exclusion on U.S. savings bonds [IRC Sec. 135(d)(2)]. See *Savings Bonds Interest Exclusion* on Page 13-4.

Educational assistance program. Qualified education expenses are reduced by any tax-free educational assistance received.

FIRST-TIME HOMEBUYER CREDIT

Form 5405; See also IRC Sec. 36

The first-time homebuyer credit is not available for homes purchased in 2019. However, taxpayers who claimed the credit, which was available for homes purchased during 2008–2011, may have to repay (recapture) their credits.

Practice Tip: The IRS has a tool to help taxpayers find the original amount of their credit, annual repayment amounts (if applicable), total amount paid and the total balance left to be paid. This information can be accessed at www.irs.gov/credits-deductions/individuals/first-time-homebuyer-credit-account-look-up.

Repayment of Credit

Home purchased in 2008. The credit must be repaid in 15 equal annual installments (without interest) beginning with the second tax year after the year the credit is claimed. The repayment amount is included as an additional tax on the taxpayer's return for that year.

- If the home is sold before the 15-year period ends, any remaining credit is repaid in the year of sale. Repayment is limited to the gain from the sale (unless sold to a related person), determined by reducing the home's basis by the credit not already repaid.
- Repayment isn't accelerated if the residence is involuntarily converted and the taxpayer acquires a new principal residence within two years.
- Repayment ends if the taxpayer dies, so none is due in the year of death or any future years. If a joint return was filed when the credit was claimed, the surviving spouse would only have to repay his half of the remaining credit (IR-2008-106).
- Repayment isn't required if the home is transferred between spouses or former spouses incident to a divorce. For years ending after the transfer, the transferee spouse is responsible for remaining repayment.

- The repayment can't be offset by the taxpayer's nonrefundable personal credits.
- Repayment is not required if the home was destroyed or sold through condemnation and not replaced within two years of the event.
- Repayment exceptions also apply to certain members of the uniformed services, Foreign Service, or employees of the intelligence community (see instructions for Form 5405).



Reporting credit repayment. A repayment must be computed on Form 5405 and carried to Schedule 2, Form 1040 when the home was purchased in 2008 and either (1) disposed of in 2019 or (2) ceased to be a principal residence in 2019. In all other situations (for example, credit repayment in installments for a home purchased in 2008), repayment is reported directly on Form 1040, Schedule 2, line 7b, or Form 1040-NR, line 59b.

FOREIGN TAX CREDIT

Form 1116; See also IRC Sec. 901 and IRS Pubs. 514 and 901

Taxpayers may choose to either claim a foreign tax credit or a tax deduction on Schedule A (Form 1040) for taxes paid to a foreign government or U.S. possession on income that is also subject to U.S. income tax. Taxpayers cannot claim both the credit and the deduction for the same foreign tax. But, a Schedule A deduction is allowed for certain taxes that do not qualify for the foreign tax credit.

The itemized deduction for state and local taxes is subject to a \$10,000 limit. Foreign taxes are subject to this overall limit. A deduction for foreign property taxes is not allowed. Foreign taxes which are paid or accrued in carrying on a trade or business, or an activity held for the production of income, are not subject to this limit [IRC Sec. 164(b)(6)].

Foreign taxes that do not qualify for the credit include:

- Taxes attributable to excluded income (such as foreign earned income).
- Taxes attributable to foreign countries designated by the Secretary of State as countries (1) involved with international terrorism, (2) that have no diplomatic relations with the U.S., or (3) whose governments are not recognized by the U.S. See Pub. 514 for a list of these countries.
- Taxes that would be refunded if the taxpayer made a claim.
- Taxes that are returned to the taxpayer as a subsidy.
- Withholding tax paid on foreign-source dividends if stock from the foreign corporation has not been held at least 16 days.

Foreign tax credit limit. Generally, the foreign tax credit is limited to U.S. tax multiplied by the ratio of foreign taxable income to total taxable income. The limit is calculated on Form 1116 and requires separating foreign-source income into specified categories.

Note: The foreign tax credit limit does not apply to taxpayers who elect to claim the foreign tax credit without filing Form 1116.

Election not to file Form 1116. Taxpayers can claim the foreign tax credit on line 1 of Form 1040, Schedule 3, without filing Form 1116 if:

- 1) Total foreign taxes paid or accrued during the year do not exceed \$300 (\$600 MFJ).
- 2) All foreign income is *passive income* (such as dividends, interest, annuities, and rents or royalties not from an active trade or business) and is reported on Form 1099-DIV, 1099-INT, Schedule K-1, or other similar statement.
- 3) For dividend income, the shares were held for at least 16 days.
- 4) The taxpayer is not filing Form 4563 (Exclusion of Income for Bona Fide Residents of American Samoa) or excluding income from sources within Puerto Rico.
- 5) All foreign taxes were legally owed, not eligible for a refund, and paid to countries that are recognized by the U.S. and do not support terrorism.

Form 1095-A

Health Insurance Marketplaces must file Form 1095-A (Health Insurance Marketplace Statement) with the IRS each year to report information on enrollments in qualified health plans through the Marketplace. The following information is reported:

- Members of the coverage household.
- Monthly premiums.
- Monthly premium amount of the applicable SLCSPP.
- Monthly advance payments of the PTC.

Individuals use this information to compute their PTC. A copy of the Form 1095-A is furnished to the recipient, who is the person identified at enrollment who is expected to file a tax return and who, if qualified, would claim the premium tax credit for the year of coverage for his household.

Advance Payment of the Credit

Individuals can choose to have some or all of the estimated credit paid in advance directly to their insurance company. Advance payments received during the year are subtracted from the amount of the premium tax credit. If the advance payments exceed the credit, the difference (up to certain limits—see *Excess Advance Premium Tax Credit Repayment* on Page 4-23) is an additional amount of tax due, reported on Schedule 2, line 2 of Form 1040.

Shared Policies

See Form 8962 instructions for allocation rules when:

- An individual or someone in his tax family was enrolled in a qualified health plan by someone outside his tax family.
- The individual or someone in his tax family enrolled someone outside the tax family in a qualified health plan.
- An individual marries or divorces during the year.
For 2019, the amount of the individual shared responsibility payment is reduced to zero.

RESIDENTIAL ENERGY TAX CREDITS

Form 5695; See also IRC Secs. 25C and 25D and IRS Pub. 17

Personal (Nonbusiness) Energy Property

Allowable credit:

- The credit is equal to 10% of the cost of qualified energy-efficient improvements plus 100% of the cost of residential energy property expenditures.
- The credit is limited to (1) \$50 for each advanced main air circulating fan; (2) \$150 for each natural gas, propane, or oil furnace or hot water boiler; and (3) \$300 for each item of: (a) electric heat pump water heaters; (b) electric heat pumps; (c) biomass fuel stoves; (d) high-efficiency central air conditioners; or (e) natural gas, propane, or oil water heaters.
- The credit is subject to a \$500 (\$200 for exterior windows and skylights) lifetime limit.

Qualifying property. The property must be installed on or in the taxpayer's principal residence that is located in the U.S. (new construction doesn't qualify). The improvement must be new (not used) property.

Qualifying property must meet technical requirements related to energy savings. Taxpayers can rely on a manufacturer's certification statement (that the property meets the technical requirements) to claim the credit (Notice 2009-53).

Property used partly for business. If the home is used partly for business (for example, a home office), any qualified expenditure must be allocated between nonbusiness and business use if the improvement is used more than 20% for business. If allocation is required, only the portion of the expenditure allocated to nonbusiness use qualifies for the credit.

Residential Energy Efficient Property Credit

Individuals can claim a tax credit for residential energy efficient property (IRC Sec. 25D). The credit is available for the types of property shown in the table *Residential Energy Efficient Property Credit* on Page 12-12.

Residential Energy Efficient Property Credit				
Property Type	Credit Amount (% of Cost)			
	2019	2020	2021	2022
Solar Water Heating	30%	26%	22%	0%
Solar Electric	30	26	22	0
Fuel Cells ¹	30	26	22	0
Small Wind Energy	30	26	22	0
Geothermal Heat Pump	30	26	22	0

¹ Maximum credit = \$500 per 0.5 kW of capacity

Other rules:

- The credit (other than for fuel cells) is available for equipment for the taxpayer's personal residence, which must be in the U.S. The credit for fuel cell property is only available for a *principal* residence.
- No credit is allowed for equipment used to heat swimming pools or hot tubs.
- The cost includes labor costs properly allocable to the onsite preparation, assembly, or original installation of the property, and for piping or wiring to interconnect such property to the home.
- The taxpayer's basis in the credit property is reduced by the amount of the credit.
- The credit can offset both regular tax and AMT. Any unused credit can be carried forward to the next year and added to the credit allowed for that year [IRC Sec. 25D(c)].
- Taxpayers can rely on manufacturer's statement that property qualifies for the credit (Notice 2009-41).
- Credit is available for new construction as well as improvements to existing homes (Notice 2013-70).

RETIREMENT SAVER'S CREDIT

Form 8880; See also IRC Sec. 25B and IRS Pub. 590-A

Qualified individuals are allowed a nonrefundable credit of up to \$1,000 (\$2,000 MFJ) for eligible contributions to an IRA or to an employer-sponsored retirement plan. The credit can offset both regular tax and AMT.

The amount of the credit is the eligible contribution multiplied by the credit rate, based on filing status and AGI.

Retirement Saver's Credit Phase-Out (2019)			
Credit Rate	Adjusted Gross Income ¹		
	MFJ	HOH	Single, MFS, QW
50%	\$ 0 – 38,500	\$ 0 – 28,875	\$ 0 – 19,250
20%	38,501 – 41,500	28,876 – 31,125	19,251 – 20,750
10%	41,501 – 64,000	31,126 – 48,000	20,751 – 32,000
0%	Over \$64,000	Over \$48,000	Over \$32,000

¹ AGI must be increased by any exclusion or deduction for foreign earned income, foreign housing cost, income for residents of American Samoa, Guam or the Northern Mariana Islands, and income from Puerto Rico.

The credit is in addition to any deduction or exclusion that otherwise applies with respect to the contribution.

Qualified individuals must:

- 1) Be at least age 18 by the end of the year,
- 2) Not be a dependent claimed on another person's return, and
- 3) Not be a full-time student.

Eligible contributions. Limited to \$2,000 per year for each individual. Eligible contributions include the sum of:

- 1) Contributions (other than rollover contributions) to traditional or Roth IRAs.
- 2) Contributions to tax-exempt employee-funded pension plans under IRC Sec. 501(c)(18)(D).
- 3) Elective deferrals to 401(k) plans, 403(b) annuities, nonqualified deferred-compensation plans maintained by state or local governments (457 plans), SIMPLE plans, and SARSEPs.
- 4) Voluntary after-tax employee contributions to any qualified retirement plan, annuity plan, or IRA.

For 2018–2025, the designated beneficiary of an ABLÉ account can claim the saver's credit under IRC Sec. 25B for contributions he makes to his ABLÉ account [IRC Sec. 25B(d)(1)].

Reduction of eligible contributions. For 2019, eligible contributions are reduced by the total amount of distributions the taxpayer (and spouse, if MFJ) received from January 1, 2017 through the due date (including extensions) of the 2019 return from:

- 1) Traditional or Roth IRAs;
- 2) 401(k), 403(b), governmental 457, 501(c)(18), SEP, or SIMPLE plans; and
- 3) Qualified retirement plans.

ALTERNATIVE MINIMUM TAX (AMT)

Form 6251; See also IRC Secs. 55–59

The AMT is calculated using a different set of tax rules than those used for regular tax. Under the AMT rules, some deductions taken for regular tax are not allowed (or are limited). Also, certain income and expenses are recognized under different rules for AMT.

If the AMT calculation results in a higher tax than regular income tax, the difference is added to regular income tax on Form 1040. In effect, the taxpayer is liable for either the AMT or regular income tax, whichever is higher.

Observation: The TCJA eliminated the itemized deduction for certain miscellaneous itemized deductions and limited the deduction for state and local taxes. In addition, it eliminated the deduction for personal exemptions. These deductions were often the reasons taxpayers became subject to AMT so, since they are no longer available, it's likely fewer taxpayers will be subject to AMT.



Alternative Minimum Taxable Income (AMTI)

The starting point for the AMTI calculation is taxable income. If taxable income is zero or less than zero, AMTI begins with AGI minus the standard or itemized deductions (whichever applies) and minus the Section 199A deduction.

To that amount, taxpayers must add or subtract certain adjustments and preferences. See *AMT for Individuals—Adjustments and Preferences (2019)* on Page 12-15.

- Adjustments are income or expense items computed differently for AMT and regular tax. They can increase or decrease AMTI.
- Preferences are items that can only increase AMTI.

Strategy: Taxpayers who claim the standard deduction for regular tax cannot itemize for AMT. Since the standard deduction is not deducted for AMT, taxpayers who are subject to AMT might save tax by itemizing deductions for regular tax (assuming those deductions are deductible for AMT), even if less than the standard deduction. However, consider any state income tax effect, since many states require taxpayers to use the same method (standard or itemized deductions) for state as they use for federal tax. Elect itemized deductions rather than the standard deduction by filing Schedule A and checking the box on line 18.



AMT NOL. Any NOL deducted to arrive at AGI is added back to AMTI, which is then reduced by the alternative tax NOL deduction (ATNOLD). The ATNOLD is generally limited to 90% of AMTI (figured without regard to the ATNOLD). The instructions for Form 6251 line 2f explain these computations.

AMT Exemption

An exemption is subtracted from AMTI to determine the amount subject to tax.

AMT Exemption Amounts (2019)			
Filing Status	Exemption Amount	Exemption reduced by 25% of AMTI over:	Exemption eliminated at AMTI of:
MFJ or QW	\$ 111,700	\$ 1,020,600	\$ 1,467,400
Single or HOH	71,700	510,300	797,100
MFS	55,850	510,300	733,700

The TCJA increased the AMT exemption amounts and significantly increased the income at which the exemption begins to phase out (\$1,020,600 for married filing joint and \$510,300 for other filers). Therefore, it's likely fewer individuals will be subject to AMT.

Married-filing-separate filers. MFS filers with AMTI above the upper limit of the exemption phase-out range must add to AMTI the lesser of: (1) 25% of the excess of AMTI over that amount or (2) their AMT exemption amount. This amount is added to the total reported on Form 6251, line 4.

Child subject to kiddie tax. A child's exemption amount is the lesser of the exemption for a single taxpayer. **Law Change Alert:** The 2019 SECURE Act has suspended the provision limiting the exemption amount for children subject to the kiddie tax to the sum of the child's earned income plus \$7,750 (for 2019) for tax years 2018–2025 [IRC Sec. 55(d)(4)(A)(iii)].

AMT Tax Rates/Computation

Taxpayers who reported capital gain distributions directly on line 6 of Form 1040, who reported qualified dividends on line 3b of Form 1040, or who had a gain on both lines 15 and 16 of Schedule D (refigured for the AMT) calculate tax in Part III (Tax Computation Using Maximum Capital Gains Rates) of Form 6251. Tax rates for capital gains are the same as for regular tax and are applied in the same order. Qualified dividends are also taxed at the same rates for both AMT and regular tax.

All others use AMT tax rates of:

- 26% on amounts up to and including \$194,800 (\$97,400 MFS).
- 28% on amounts above \$194,800 (\$97,400 MFS).

Tentative minimum tax (TMT). Once the appropriate tax rate has been applied to AMTI, the amount is reduced by the AMT foreign tax credit to arrive at TMT. See *Simplified AMT foreign tax credit* on Page 12-11.

Alternative minimum tax is the excess of TMT over an adjusted regular income tax.

Tentative minimum tax (TMT)
– Regular income tax
+ Tax on lump-sum distributions
+ Foreign tax credit for regular tax _____
= AMT. Report on line 1 of Schedule 2, Form 1040.

Minimum Tax Credit

The minimum tax credit (MTC) is available if the taxpayer paid AMT generated by *deferral items* in a prior year (IRC Sec. 53).

AMT adjustments and preferences fall into two categories:

- 1) *Deferral items.* Items that do not cause a permanent difference in taxable income over time (depreciation, etc.).
- 2) *Exclusion items.* Items that cause a permanent difference in taxable income (are never considered for AMT, such as real estate taxes).

See *AMT for Individuals—Adjustments and Preferences (2019)* on Page 12-15.

Generally, the MTC can only be used to the extent that regular tax exceeds the tentative minimum tax. If the taxpayer remains in an AMT situation, or is close to paying AMT (regular tax is only slightly greater than the tentative minimum tax), the MTC might never be used or provide only minimal benefit.

The minimum tax credit is computed on Form 8801 (Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts).

3.8% NET INVESTMENT INCOME TAX

Form 8960; See also IRC Sec. 1411

The net investment income tax (NIIT) equals 3.8% of the lesser of:

- 1) Net investment income (NII) or
- 2) The excess (if any) of modified adjusted gross income (MAGI) over the threshold amount.

Children, Education, and Divorce

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Dependent Children—Tax Overview

2019 Filing Requirements	Generally, a dependent child must file a return if any of the following apply: <ul style="list-style-type: none"> • Unearned income over \$1,100. • Earned income over \$12,200. • Gross income more than the greater of (1) \$1,100 or (2) earned income plus \$350 (not to exceed \$12,200). Note: The above filing requirements assume the dependent child is unmarried and under age 65. For a dependent child who is blind, add \$1,650 to the above amounts. Practice Tip: Even if not required to file a return, a child should file to claim a refund if income tax was withheld from his income.
2019 Standard Deduction	Greater of \$1,100 or the amount of earned income plus \$350 (not to exceed \$12,200). ¹ Blind Dependent: Add \$1,650.
Exemption	A child who qualifies as a dependent on the parent's (or another taxpayer's) tax return cannot claim a personal exemption on his own tax return even if the parents (or other qualifying taxpayer) choose not to claim the exemption.

Tax Treatment of Dependent Child's Income (2019)

<i>Subject to Kiddie Tax Rules</i>	<i>Not Subject to Kiddie Tax Rules</i>
Personal exemption: \$0	
Earned Income Only¹	
\$0–12,200.....	Not taxed
Over \$12,200.....	Child's rate
Unearned Income Only¹	
\$0–1,100.....	Not taxed
\$1,101–2,200.....	Child's rate
Over \$2,200.....	Estates and trusts rate
Both Earned and Unearned Income¹	
<i>Unearned income:</i>	
\$0–1,100.....	Not taxed
\$1,101–2,200	Child's rate
Over \$2,200....	Estates and trusts rate
<i>Earned income:</i>	
Earned income <i>minus</i> remaining amount of standard deduction.....	Child's rate
Total income <i>minus</i> the standard deduction	
Child's rate	

¹ Assumes standard deduction exceeds itemized deductions and that child is not blind.

KIDDIE TAX

Forms 8615 and 8814; See also IRC Sec. 1(g) and IRS Pub. 929

Children who have unearned (typically, investment) income greater than \$2,200 (in 2019) may be subject to tax based on estate and trust income tax rates (the so-called “kiddie tax”).

The Tax Cuts and Jobs Act of 2017 (TCJA) changed the way the kiddie tax is computed. Beginning in 2018, the kiddie tax computa-

tion no longer includes the parent's marginal tax rate; instead, the income tax rates for trusts and estates are used. Thus, there is no longer a connection between the kiddie tax and the parent's return, unless the parent elects to report the child's income on his return.

Law Change Alert: The 2019 SECURE Act has repealed IRC Sec. 1(j)(4) for tax years beginning after December 31, 2019 [Sec. 501(a) of the 2019 SECURE Act]. This basically restores linking the child's tax rate to the parent's marginal tax rate, rather than to the trust and estate tax rate. However, a taxpayer may elect for this provision to apply to the 2018 and 2019 tax years [Sec. 501(c)(3) of the 2019 SECURE Act]. Amended returns may be beneficial for the 2018 tax year.

Children Subject to the Kiddie Tax Rules¹

Age at year-end ²	Rules apply if:
< 18	Always apply.
18	Child's earned income ≤ 50% of his support. ³
19-23	Child is a full-time student and earned income ≤ 50% of his support. ³
> 23	Never apply.

¹ *Exception:* The kiddie tax rules do not apply if child (a) is married and files a joint return or (b) does not have at least one living parent at year-end.

² For 2019, the age of a child with a January 1 birthday is determined as of January 1, 2020.

³ Support includes amounts spent for the child's food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities. A scholarship a child receives is not considered support if he is a full-time student.

Child's Unearned Income

$$\text{Total Income} - \text{Earned Income} = \text{Unearned Income}$$

Unearned income includes taxable interest, dividends, capital gains, the taxable part of social security and pension payments, certain distributions from trusts, unemployment compensation, and tribal gaming revenues distributed as a per capita payment. A child's unearned income is first reduced by a \$1,100 standard deduction. The next \$1,100 is taxed at the child's rate, and the remainder is taxed at the estate and trust rates.

Note: Total income is also reduced by any penalty on early withdrawal of savings if a child files a separate return.

Filing Options

- 1) *Child files his own return.* Form 8615 (Tax for Certain Children Who Have Unearned Income) must be completed and attached to the child's Form 1040. This method is available to any child.
- 2) *Parents report child's income on their tax return.* Must meet certain tests. See *Reporting Child's Income on Parents' Return* on Page 13-2.

Itemized deductions. If a child filing a separate return has itemized deductions greater than the \$1,100 standard deduction, the amount of income shielded from kiddie tax may be more than \$2,200. Such deductions must be directly connected with the production of the unearned income. See the instructions for Form 8615 for more information.

Alternative minimum tax (AMT) and kiddie tax. A child whose tax is computed on Form 8615 may owe AMT. Form 6251 must be completed to determine AMT liability. **Law Change Alert:** The 2019 SECURE Act has suspended the provision limiting the exemption amount for children subject to the kiddie tax to the sum of the child's earned income plus \$7,750 (for 2019) for tax years 2018–2025 [IRC Sec. 55(d)(4)(A)(iii)]. Amended returns may be beneficial for the 2018 tax year.

Signing the return. If the child cannot sign the return, either parent may sign the child's name in the appropriate space. Include the notation “By (parent's signature), parent for minor child.”

Education Tax Incentives Comparison Chart (2019)

	American Opportunity Credit	Lifetime Learning Credit	IRA Withdrawals	Savings Bond Interest Exclusion	Student Loan Interest Deduction	Tuition and Fees Deduction Caution—Expired!	Qualified Tuition Program (QTP)	Education Savings Account (ESA)
IRC Sec.	25A	25A	72(t)	135	221	222	529	530
Tax Benefit	Tax credit—40% refundable; ¹ 60% nonrefundable.	Tax credit—nonrefundable.	10% early withdrawal penalty is waived.	Tax-free interest.	Above-the-line deduction.	Above-the-line deduction.	Tax-free earnings (savings plan) or tax-free education credits (prepaid plan).	Tax-free earnings.
2019 Annual Limits	Credit up to \$2,500 per student (100% of first \$2,000 of expenses and 25% of next \$2,000).	Credit up to \$2,000 per return (20% of up to \$10,000 of expenses).	Amount of qualifying expenses.	Amount of qualifying expenses.	Deduction of up to \$2,500 of interest paid on education loan.	Deduction of up to \$4,000 of qualifying expenses paid.	Nonrefundable contributions limited to amount necessary to cover qualified expenses.	\$2,000 nonrefundable contribution per child under age 18 and any age special-needs child.
Qualified Education Expenses (QEE) ²	Tuition and fees; books, supplies and equipment. ³	Tuition and fees; books, supplies and equipment. ⁴	Tuition and fees; books, supplies and equipment; ⁵ room and board if at least half-time attendance.	Tuition and fees; contributions to QTPs and ESAs.	Tuition and fees; books, supplies and equipment; room and board, transportation, other necessary expenses.	Tuition and fees; books, supplies and equipment. ⁴	Tuition and fees; books, supplies and equipment; ⁵ computer and internet service; room and board if at least half-time attendance.	Tuition and fees; books, supplies and equipment; ⁵ room and board if at least half-time attendance; contributions to QTP; computer and internet service (K–12 only).
QEE Must Be For	Taxpayer, spouse or dependent.	Taxpayer, spouse or dependent.	Taxpayer, spouse, child or grandchild.	Taxpayer, spouse or dependent.	Taxpayer, spouse or dependent.	Taxpayer, spouse or dependent.	Account beneficiary.	Account beneficiary.
Qualifying Education	First four years of undergraduate.	Undergraduate and graduate.	Undergraduate and graduate.	Undergraduate and graduate.	Undergraduate and graduate.	Undergraduate and graduate.	K–12 (\$10k annual limit), undergraduate and graduate.	K–12, undergraduate and graduate.
Other Rules and Requirements	Must be enrolled at least half-time in a degree program; parents can shift credit to student by not claiming student as a dependent.	Available for unlimited number of years for both degree and non-degree programs; parents can shift credit to student by not claiming student as a dependent.	Penalty waived on IRA distributions up to the amount of qualified expenses for the year.	Applies only to qualified Series EE bonds issued after 1989 or Series I bonds; bond owner must be at least 24 years old when bond issued.	Loan must be incurred solely to pay qualified education expenses of student enrolled at least half-time in a degree program. Payer must be legally obligated to repay debt.	Not allowed if education expenses are deducted under another provision or education credit is claimed.	Account owner can change beneficiary or reclaim funds; can elect to spread gift over five years; some states allow deduction to residents; beneficiary can be anyone.	Contributions must be made by the original return due date; may also contribute to QTP; mandatory distributions at age 30; beneficiary can be anyone.
2019 Modified AGI Phase-Out								
MFJ.....	\$ 160,000 – 180,000	\$ 116,000 – 136,000	N/A	\$ 121,600 – 151,600	\$ 140,000 – 170,000	Not allowed if MAGI exceeds. ⁶	N/A	\$ 190,000 – 220,000
Single, HOH, QW ⁵ ...	80,000 – 90,000	58,000 – 68,000		81,100 – 96,100	70,000 – 85,000			95,000 – 110,000
MFS.....	Do Not Qualify	Do Not Qualify		Do Not Qualify	Do Not Qualify			95,000 – 110,000

~~Expired Provision Alert:~~ The tuition and fees deduction expired at the end of 2017. It's possible that Congress will extend it to 2019 and 2020, but had not done so at the time of this publication.

¹ Exception: Not refundable for certain children under age 24.
² Qualifying educational expenses must be reduced by any tax-free scholarships and grants. The same educational expenses cannot be used for figuring more than one benefit.
³ Must be required for enrollment or attendance at an eligible educational institution.
⁴ Must be paid to the eligible educational institution as a condition of the student's enrollment or attendance at the institution.
⁵ For savings bond interest exclusion, QW is subject to the same phase-out range as MFJ.
⁶ No AGI phase-out range. Up to \$4,000 is deductible if MAGI does not exceed \$65,000 (\$130,000 for MFJ). Up to \$2,000 is deductible if MAGI does not exceed \$80,000 (\$160,000 for MFJ).

can, therefore, deduct the interest on his return. If parents make payments on the student/child's loan as a gift after the child graduates, the child is eligible to deduct the interest on his tax return.

TUITION AND FEES DEDUCTION

Form 8917; See also IRC Sec. 222 and IRS Pub. 970

Expired Provision Alert: The tuition and fees deduction expired at the end of 2017. However, this discussion is retained in the event the deduction is extended.

For 2019, taxpayers are allowed to claim an above-the-line tuition and fees deduction for qualified higher education expenses paid. The deduction is limited based on the taxpayer's modified AGI.

The deduction is not allowed for MFS filers or for any taxpayer who qualifies as a dependent (whether or not claimed) on another taxpayer's return.

Tuition and Fees Deduction Limit

Deduction Limit ¹	If Modified AGI is:	
	Single, HOH, QW	MFJ
\$ 4,000	\$ 0 – \$ 65,000	\$ 0 – \$130,000
2,000	65,001 – 80,000	130,001 – 160,000
0	Over \$ 80,000	Over \$160,000

¹ Deduction equals qualified higher education expenses, if less.

Note: There is no AGI phase-out range. Thus married taxpayers with \$4,000 of qualifying educational expenses and modified AGI of \$130,000 or less would be entitled to deduct the full \$4,000.

Modified AGI is AGI before the tuition and fees deduction, increased by: (1) foreign earned income and housing exclusion, (2) foreign housing deduction, and (3) exclusion for income from certain U.S. possessions and Puerto Rico.

Qualified Higher Education Expenses

- Tuition and fees required for the enrollment or attendance at an eligible educational institution for the taxpayer, spouse or a dependent. Charges and fees associated with books, supplies, and equipment are qualified expenses if the amount must be paid to the eligible educational institution as a condition of the enrollment or attendance of the student [Reg. 1.25A-2(d)(2)].
- Expenses qualify in the tax year paid. Payment must be for education that begins either in the same tax year or in the first three months of the following tax year.
- An eligible institution is any accredited college, university, vocational school or other accredited post-secondary education institution.

Note: Students should receive Form 1098-T (Tuition Statement) from each educational institution they attended during the year that shows the payments the institution received (box 1) for tuition and fees. However, the amount in box 1 of Form 1098-T might be different than what the taxpayer actually paid. When figuring the deduction, use only the amounts paid in the current tax year for qualified education expenses. Taxpayers must obtain Form 1098-T (unless an exception applies) in order to claim education credits or the tuition deduction.



Nonqualified expenses include: insurance, medical expenses, room and board, transportation or similar personal, living or family expenses.

Adjustments to qualified expenses. Qualified expenses must be reduced by the amount paid with tax-free educational assistance such as scholarships, Pell grants, employer-provided assistance, veterans' educational assistance, and any other nontaxable payment (other than gifts, bequests, or inheritances) received for education expenses. Qualified expenses must also be reduced by the expenses considered to figure:

- U.S. savings bond interest excluded under IRC Sec. 135.
- Tax-free distributions from an ESA or QTP.

Coordination With Other Education Benefits

For each eligible student, the taxpayer can claim either the tuition and fees deduction or an education credit, but not both. The tuition and fees deduction is not allowed (for a particular student) if the education expenses are deducted under any other provision of the law.

QUALIFIED TUITION (SECTION 529) PROGRAMS

See also IRC Sec. 529 and IRS Pub. 970

The TCJA changed the definition of *qualified higher education expense*. For purposes of the 529 plan rules, qualified higher education expenses now include expenses for tuition for attendance at an elementary or secondary public, private or religious school [IRC Secs. 529(c)(7) and 530(b)(3)(B)]. Cash distributions from all 529 plans are limited to \$10,000 for elementary and secondary school tuition per tax year, per-student [IRC Sec. 529(e)(3)(A)].

A qualified tuition program (QTP) allows a taxpayer to make contributions to an account or program to be used to pay qualified education costs. (QTPs are sometimes called *Section 529 plans*.)

Two types of plans are available:

- 1) **Prepaid programs.** Contributions are used to purchase tuition credits for a designated beneficiary (student).
- 2) **Savings account plans.** Contributions are made to an account established to pay for the qualified education expenses of a beneficiary (student).

Contributions

- 1) The contributor is not subject to any AGI limitations.
 - 2) The amount that can be contributed to a QTP is limited to the amount necessary to provide for qualified expenses of the beneficiary (as determined by the plan).
 - 3) The contribution is considered a completed gift; it is excluded from the contributor's estate.
 - 4) Contributors can elect to take contributions larger than the annual gift exclusion into account ratably over five years. For example, an individual can contribute \$75,000 to a QTP in 2019 without gift tax consequences provided no other gifts are made to the account beneficiary in 2019. For years 2019–2023, the \$15,000 (\$75,000 ÷ 5) gift allocated to that year is taken into account for the annual gift tax exclusion in effect for those years.
- Practice Tip:** The election is made on Form 709 [United States Gift (and Generation-Skipping Transfer) Tax Return] by checking the box on Schedule A and attaching an explanation.
- 5) Contributions to a QTP are not deductible for federal tax.

Distributions

- 1) Distributions of earnings from QTPs are excluded from income if used for qualified education expenses (no tax return reporting requirements in that case). If distributions are more than the beneficiary's qualified expenses, the earnings portion of the excess is included in the beneficiary's income.
- 2) The earnings portion of distributions not used for qualified education expenses also is subject to a 10% penalty (computed on Form 5329 [Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts]).
- 3) Taxpayers should receive Form 1099-Q [Payments from Qualified Education Programs (Under Sections 529 and 530)] from the QTP showing earnings and basis related to a QTP distribution.

2019 Employer and Self-Employed Retirement Plan Chart

	SEP IRA (Self-Employed)	SEP IRA (Employee)	SIMPLE IRA
Who can establish?	Anyone (regardless of age) with self-employment (SE) income. ¹	Any employer.	Employers with 100 or fewer employees (including self-employed individuals) that do not maintain another retirement plan.
Eligible employees²	N/A. But, if contributions are made for self-employed, they must also be made for eligible employees.	Employees at least age 21 who worked for the employer during at least three of the last five years and received at least \$600 in compensation from employer in 2019.	Employees who have earned at least \$5,000 from employer in any prior two years, and are reasonably expected to do so in the current year.
Maximum Contributions Allowed	20% of net SE income after SE tax deduction up to a maximum contribution of \$56,000. SARSEPs established before 1997 follow 401(k) contribution limit rules.	25% of wages up to maximum contribution of \$56,000. SARSEPs established before 1997 follow 401(k) contribution limit rules.	Employee elective deferrals limited to \$13,000 (additional \$3,000 if age 50 or older at end of the year). The employer can either: 1) Match employee elective deferrals dollar for dollar up to 3% of wages (can be reduced to as low as 1% in any two out of five years) or 2) Contribute 2% of wages (up to \$280,000) for <i>all</i> employees (including nonparticipants).
Penalties for Early Withdrawal (Before Age 59½)	10% of distribution. (See <i>Exceptions to 10% Withdrawal Penalty Before Age 59½</i> on Page 14-3.)		10% of distribution, or 25% if withdrawn within two years from the date first participated in plan. (See <i>Exceptions to 10% Withdrawal Penalty Before Age 59½</i> on Page 14-3.)
When Withdrawals Must Begin	By April 1 of the year following the year the account owner turns age 70½. Note: Contributions can still be made to the account after age 70½ if the individual has earned income.		
Date to Establish Plan and Make Contributions	Return due date, including extensions, for the year the plan is to be effective.		<ul style="list-style-type: none"> • Establish plan by October 1, 2019 for new plans first in effect for 2019.³ • Make employer contributions by the return due date, including extensions.⁴
Employer Contributions Required?	No	No	Yes
Borrowing Permitted?	No	No	No
Rollover Allowed?	Yes	Yes	Yes
Penalty for Excess Contributions?⁵	6% excise tax for both self-employed individuals and employees if excess contribution (plus earnings) is not withdrawn by return due date (including extensions). Employers are subject to a 10% excise tax on nondeductible (excess) contributions, unless an exception applies.		

¹ A SEP is established at the employer level. For a partner, the partnership establishes and contributes to the SEP.

² Plans can set less restrictive participation requirements, but not more restrictive ones.

³ New employers that come into existence after October 1 may establish a plan as soon as administratively possible.

⁴ Employee and self-employed elective deferrals must be deposited as soon as reasonably possible, but no later than 30 days after the end of the month in which the amounts would otherwise have been payable to the employee in cash. A self-employed taxpayer's elective deferral must be deposited by January 30 of the following year (January 30, 2020 for 2019 amounts).

⁵ Excess contribution penalties are cumulative each year until corrected. The penalty is reported on IRS Form 5330 (Return of Excise Taxes Related to Employee Benefit Plans).

Advantages to Employer and Self-Employed Plans

Qualified plans, SEPs, and SIMPLEs:

- Contributions are generally tax deductible by the contributor and tax deferred for the plan participant. Earnings on contributions are tax deferred until withdrawn.
- Maximum contributions (including SEPs and SIMPLEs) are generally greater than IRAs.
- Deductible contributions allowed after age 70½.

SEPs and SIMPLEs:

- Easy to set up and maintain.
- Allow plan participant to choose how funds are invested as opposed to a plan administrator through employer.
- Participant is always 100% vested in the plan.

SEPs:

- No annual reporting requirements; easy to administer.
- Do not require recurring contributions.

SIMPLEs: Similar to 401(k) employee elective deferral and employer matching, without complex nondiscrimination and "top-heavy" rules.

401(k) and 403(b) plans:

- Employers allowed to match employee contributions; employee is generally fully vested sooner than with other qualified plans.
- Plan is managed by professionals.
- Easy for employees—contributions through payroll reductions.
- Certain tax-free borrowing from plan is permitted.

2019 Employer and Self-Employed Retirement Plan Chart

Defined-Benefit	Defined-Contribution (Profit-Sharing)	401(k)	403(b)
Any employer.			Tax-exempt religious, charitable or educational organizations.
Employees at least age 21 with one year of service (1,000 hours).			Employees ⁶ who work 20 or more hours per week, do not participate in another 401(k), 457 or 403(b) plan and will contribute more than \$200 per year.
Actuarially determined contribution. Maximum benefit payout limited to 100% of average compensation for the three consecutive years of highest compensation (limited to \$280,000), but not to exceed \$225,000. ⁷	Contributions per participant up to lesser of 100% of compensation or \$56,000. Employer deduction limited to 25% of aggregate compensation (limited to \$280,000 per employee) for all participants (20% of net SE income after SE tax deduction for self-employed). ⁷	Employee elective deferrals limited to \$19,000 (additional \$6,000 if age 50 or older at end of the year). Employer deduction limited to 25% of combined wages of all employees (elective deferrals do not reduce wages for the 25% limit). Combined employer contributions and employee elective deferrals per employee limited to lesser of 100% of wages or \$56,000 (additional \$6,000 for employees age 50 or older by year-end). ⁷	Employee elective deferrals limited to \$19,000 (additional \$6,000 if age 50 or older at end of the year). Special formula applies to additional employer contributions based on years of service. Combined employer contributions and employee elective deferrals per employee limited to lesser of 100% of wages or \$56,000 (additional \$6,000 for employees age 50 or older by year-end). ⁷
10% of distribution. (See <i>Exceptions to 10% Withdrawal Penalty Before Age 59½</i> on Page 14-3.)			
For self-employed and >5% owners, by April 1 of the year following the year the account owner turns age 70½. For all other employees, April 1 of the year following the year the account owner turns age 70½ or retires, whichever is later.			
December 31, to establish plan. Return due date, including extensions for profit-sharing plan contributions. 8½ months after year-end for defined benefit plan contributions.		December 31 to establish plan. For employer contributions, return due date including extensions. ⁸	
Yes	No	Generally no.	
Yes, if plan permits. Must pay back in five years (unless used to buy a principal residence).			
Yes	Yes	Yes	Yes
Employers are subject to a 10% excise tax on nondeductible (excess) contributions, unless an exception applies.		<p><i>Employee's elective deferral:</i> No penalty or tax if 2019 excess is withdrawn by April 15, 2020 (but allocable earnings are taxable in year withdrawn). If not withdrawn by April 15, 2020, excess is taxed twice—once in the year of excess contribution and again when distributed because no cost basis is allowed for excess contribution.</p> <p><i>Employer's contribution:</i> 10% penalty on excess contributions (resulting from plan failing average deferral percentage test) unless distributed (with earnings) to highly compensated employee(s) within 2½ months after the close of the plan year (taxable to employee in year of deferral). Failure to distribute excess within 12 months after close of plan year results in plan failing to qualify for that plan year and all subsequent plan years for which the excess contributions remain uncorrected.</p>	
<p>⁶ Includes self-employed ministers.</p> <p>⁷ Nondiscrimination rules may affect contributions/deferrals for certain employees.</p> <p>⁸ The Tax Code does not specify when the employer is required to deposit employee elective deferrals into the employee's account. However, under ERISA regulations, employee elective deferrals must be contributed to the employee's 401(k) plan account as soon as reasonably can be segregated from the employer's general assets, but not later than the 15th business day of the month immediately after the month in which the contributions either were withheld or received by the employer.</p> <p>Disaster Relief Alert: Special rules apply for distributions and loans to victims of qualified disasters. See <i>Taxpayer Certainty and Disaster Tax Relief Act of 2019</i> on Page 17-1.</p>			

Exceptions to 10% Withdrawal Penalty Before Age 59½

Note: Distributions treated as a return of nondeductible contributions, distributions of excess contributions or deferrals and distributions of excess aggregate contributions to meet nondiscrimination requirements are not subject to the 10% penalty.

Form 5329 Number	Applies to distributions from:	Exception
01.....	Qualified plan	Distribution made to an employee after separating from service in or after the year he reaches age 55 (age 50 for qualified public safety employees).
02.....	Qualified plan or IRA	Distribution is part of a series of substantially equal periodic payments made over the life expectancy of the participant or joint lives of participant and his beneficiary.
03.....	Qualified plan or IRA	Distribution made due to total and permanent disability.
04.....	Qualified plan or IRA	Distribution made due to death.
05.....	Qualified plan or IRA	Distribution to the extent the individual's unreimbursed medical expenses exceed 7.5% of his AGI.
06.....	Qualified plan	Distribution made to an alternate payee pursuant to a qualified domestic relations order (QDRO).
07.....	IRA	Distribution to pay for health insurance premiums for certain unemployed individuals.
08.....	IRA	Distribution to the extent of the qualified higher education expenses for the year of the taxpayer, spouse, child or grandchild.
09.....	IRA	Distribution for first-time home purchases (no home ownership in prior two years). Exception limited to \$10,000 (lifetime).
10.....	Qualified plan or IRA	Distribution due to an IRS levy on the qualified plan or IRA. The exception will not apply if funds are withdrawn to avoid a levy or to satisfy a levy on other property.
11.....	Qualified plan or IRA	Distribution to reservists while serving on active duty for at least 180 days.
12.....	—	Various other exceptions. See Form 5329 instructions and Pubs. 575 and 721 for more information.

amount. The 6% excise tax will apply each year the excess contribution remains in the IRA.

Note: If total 2019 contributions exceed \$6,000 (\$7,000 if age 50 or older) and the excess is not withdrawn by the tax return due date (including extensions), the entire excess will be taxable when withdrawn even though no deduction was allowed for the excess contribution.



- 3) Excess contributions that cannot be deducted in the year of contribution can be added to the contributions in a later year, if the contributions for that later year are less than the maximum allowed for that year. This method avoids having to make a withdrawal but doesn't avoid the 6% excise tax on any excess contributions remaining at the end of the year.

Example: In 2018, Camilla (age 42) contributed \$1,500 to her IRA but was only entitled to contribute \$1,200 due to her compensation for the year. Assume she has \$8,000 of compensation in 2019. Camilla may correct her excess 2018 contribution by counting it as a 2019 contribution.

Her deduction for 2018 is \$1,200, and her deduction limit for 2019 will be the lesser of compensation (\$8,000) or \$6,000. So, provided she contributes no more than \$5,700 to her IRA for 2019, the \$300 excess contribution from 2018 can be added to her 2019 contribution without exceeding the 2019 limit. Camilla will still be liable for the 6% excise tax in 2018 on \$300, the 2018 excess contribution.

Court Case: A taxpayer made a \$6,000 nondeductible contribution to an IRA for 2008, a year in which he was an active participant in a qualified retirement plan. He became self-employed in 2009 and made IRA contributions of \$6,000 for that year and \$800 for 2010. Maintaining that the 2008 contribution was an excess contribution that could be carried forward, the taxpayer claimed a \$6,000 IRA contribution deduction for 2010. The Tax Court disagreed, concluding that the 2008 contribution was nondeductible because the taxpayer was an active participant in a qualified plan. It wasn't an excess contribution that could be carried forward and deducted in future years. Furthermore, there's no authority to allow a cash basis taxpayer to make contributions for a future year or to change the designation to a different year after the close of that tax year (*Dunn*, TC Memo 2015-208).

Excess due to incorrect rollover information. If an excess contribution to a traditional IRA is the result of a rollover that occurred because the required information received from the distributing plan was incorrect, the excess contribution can be withdrawn [IRC Sec. 408(d)(5)]. Do not include the excess contribution in gross income for the year the excess is withdrawn but rather amend the Form 1040 to correct the reporting for the year in which the excess contribution occurred.



Example: In 2018, Mary Beth received \$200 from her deceased husband's former employer. The information provided with the distribution check indicated that the distribution was eligible to be rolled over to an IRA. Mary Beth had made the maximum IRA contribution earlier, but since this was supposedly eligible to be rolled over she contributed the \$200 to her IRA. In 2019, she received information that the \$200 was a special distribution that was not eligible for rollover. Since she had made the maximum contribution in 2018, the additional \$200 became an excess contribution.

To correct the problem Mary Beth should withdraw the \$200 plus its earnings in 2019 and amend her 2018 Form 1040 to correct the reporting of the rollover amounts in that year. Since the excess contribution was caused by incorrect information, she can correct it without being subject to the excise tax for an excess contribution in 2018.

Prohibited Transactions

If an IRA owner or beneficiary engages in a prohibited transaction involving an IRA account, the account ceases to be an IRA as of the first day of the tax year in which the transaction occurs [IRC Sec. 408(e)(2)]. Assets in the account are considered distributed to the owner (or beneficiary), and are included in gross income. Penalties for premature distribution apply.

Examples of prohibited IRA transactions (IRC Sec. 4975):

- 1) Borrowing money from it.
- 2) Selling property to it.
- 3) Using it as security for a loan.
- 4) Buying property for personal use (present or future) with IRA funds.

Caution: If a taxpayer invests his IRA in nonpublicly traded assets or assets that he controls, the risk of engaging in a prohibited transaction may be increased.

DEDUCTING TRADITIONAL IRA CONTRIBUTIONS

If the taxpayer (and spouse) was not covered by an employer-sponsored retirement plan at any time during the year, contributions to a traditional IRA are fully deductible. However, if the taxpayer (or spouse) was covered by an employer retirement plan, the amount of the traditional IRA contribution that is deductible depends on the taxpayer's filing status, amount of modified AGI and, if married, coverage status. See the following table. See also the *Reduced IRA Deduction Worksheet (2019)* on Page 14-6.

Deductibility of IRA Contributions—Individual (or Spouse) Covered By an Employer Retirement Plan (2019)		
Filing Status	Modified AGI	Deduction
Single or HOH	\$64,000 or less	Full
	\$64,001–73,999	Partial
	\$74,000 or more	None
MFJ (covered spouse) or QW	\$103,000 or less	Full
	\$103,001–122,999	Partial
	\$123,000 or more	None
MFJ (noncovered spouse)	\$193,000 or less	Full
	\$193,001–202,999	Partial
	\$203,000 or more	None
MFS ¹ (covered or noncovered spouse)	Less than \$10,000	Partial
	\$10,000 or more	None

¹ Married individuals filing MFS who live apart at all times during the year are treated as single.

Modified AGI—IRA Deduction

AGI computed before considering the IRA deduction

- + Foreign earned income exclusion
- + Foreign housing exclusion or deduction
- + Excluded employer-provided adoption benefits shown on Form 8839
- + Excluded U.S. savings bond interest shown on Form 8815
- + Student loan interest deduction
- + Tuition and fees deduction (if extended)

= Modified AGI (MAGI)

Even if the deduction is limited, the taxpayer can still make the maximum allowable contribution to an IRA. For example, if a taxpayer is limited under the employer retirement plan rules to a \$1,200 IRA deduction, he may still contribute the full \$6,000 (or

Salary Reduction Simplified Employee Pension (SARSEP)

A SARSEP is a SEP that includes a 401(k)-type employee salary deferral feature. This allows employees to either receive cash or have the employer pay part of their salaries to the SEP. The \$19,000 (for 2019) (additional \$6,000 allowed if age 50 or older at year-end) annual deferral limit on a regular 401(k) also applies to SARSEPs.

Note: Employers can no longer establish new SARSEPs. Employees and employers may continue to contribute to existing SARSEPs that were established before 1997, including contributions for new employees hired after 1996.

CONTRIBUTION LIMITS FOR THE SELF-EMPLOYED

To calculate a self-employed individual's deductible contribution to a SEP or defined-contribution qualified plan [for example, profit-sharing or 401(k) plan] the 25% deduction limit is applied to self-employment (SE) earnings less the individual's plan contribution and deduction for SE tax paid. Because SE earnings are reduced by the plan contribution, the maximum contribution rate for a self-employed person's plan contribution (applied to SE earnings before the contribution deduction) is 20% ($0.25 \div 1.25$).

Sample Calculation: \$50,000 of SE income (after deduction for SE tax) \times 20% = \$10,000

Proof: $(\$50,000 - \$10,000) \times 25\% = \$10,000$

Caution: Like any other plan participant, the 2019 contribution to a self-employed person's account cannot exceed \$56,000.

Exception: For a 401(k) plan, the 2019 maximum addition for a participant age 50 or older at year-end is \$62,000 taking into account the \$6,000 catch-up elective deferral allowed.

If the plan calls for contributions equal to a percentage of compensation less than the 25% maximum, use the table *Contribution Rates for Self-Employed Persons* on Page 14-18 to determine the contribution percentage for self-employed individuals.

Contribution Rates for Self-Employed Persons

Plan Rate	SE Person's Rate	Plan Rate	SE Person's Rate
1%	0.9901%	14%	12.2807%
2	1.9608	15	13.0435
3	2.9126	16	13.7931
4	3.8462	17	14.5299
5	4.7619	18	15.2542
6	5.6604	19	15.9664
7	6.5421	20	16.6667
8	7.4074	21	17.3554
9	8.2569	22	18.0328
10	9.0909	23	18.6992
11	9.9099	24	19.3548
12	10.7143	25	20.0000
13	11.5044		

SIMPLE IRA PLANS

IRC Sec. 408(p)

Disaster Relief Alert: Special rules apply for distributions and loans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019* on Page 17-1.

Qualified employers (including self-employed individuals) may establish savings incentive match plans for employees (SIMPLE) retirement plans. A SIMPLE plan allows eligible employees to defer taxable compensation and employers to make either matching contributions for employees who elect to participate, or nonelective contributions for all eligible employees (including those who do not **so elect**).

SIMPLE plans do not fall under the complicated 401(k)-type rules that require a certain level of employee participation. An employer can establish a SIMPLE plan even if some employees choose not to participate.

Contributions to a SIMPLE IRA plan are made to special IRA accounts for each employee. A SIMPLE IRA plan normally does not file an annual Form 5500.

See *2019 Employer and Self-Employed Retirement Plan Chart* on Page 14-2 for more on the rules that apply to SIMPLE IRA plans.

Distributions

Taxed like IRAs (except the 10% early withdrawal penalty is increased to 25% for distributions within the first two years of participation). **Disaster Relief Alert:** Generally, Section 72(t) early withdrawal penalties will not apply to qualified distributions and certain loans from qualified plans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019* on Page 17-1.

Other Requirements

- 1) The employer and employee contributions must be 100% vested at all times.
- 2) The employer must deposit employee elective deferrals within 30 days after the end of the month during which the deferrals were withheld from wages.
- 3) The employer must make its required contribution by the due date of its tax return, including extensions.

Self-Employed Individuals

A self-employed individual's compensation for purposes of elective deferrals and employer contributions is the amount entered on line 4, Section A (or line 6, Section B) of Schedule SE (Form 1040), before subtracting any contributions made to a SIMPLE IRA on behalf of the self-employed individual (IRS Pub. 560).

Example: In 2019, Toby's income from his sole proprietorship (line 31 of Schedule C) is \$15,000. He establishes a SIMPLE IRA plan with a 3% employer matching contribution. His compensation for purposes of his allowable elective deferral and the employer matching contribution is \$13,853 ($\$15,000 \times .9235$, which is the amount from Schedule SE, line 4).

He elects to defer \$13,000 of his compensation. The employer matching contribution is \$416 ($\$13,853 \times 3\%$). Toby deducts \$13,416 ($\$13,000 + \416) on line 15 of Form 1040, Schedule 1.

A self-employed person's income is deemed earned as of the last day of the year [Reg. 1.401(k)-1(a)(4)(iii) and (6)(ii)(B)]. Thus, his elective deferral amount does not have to be deposited until January 30 of the following year.

QUALIFIED RETIREMENT PLANS

Disaster Relief Alert: Special rules apply for distributions and loans to victims of qualified disasters. See *Taxpayer Certainty and Disaster Tax Relief Act of 2019* on Page 17-1.

A qualified retirement plan is a plan that complies with specific requirements imposed by the Employee Retirement Income Security Act of 1974 (ERISA), Internal Revenue Code, and IRS Regulations. Section 401(k) and profit-sharing plans are examples.

Characteristics of a qualified plan include:

- It cannot discriminate between certain employees.
- It must be for the exclusive benefit of employees or beneficiaries.
- It must be permanent, not temporary.
- It must satisfy the minimum vesting standards.

Some advantages of a qualified plan:

- Employer contributions are deductible.
- For the employee, employer contributions and plan earnings are tax deferred.
- The employee account is not subject to claims of creditors.

Social Security



Tab 14 Social Security Topics

Social Security and Medicare Highlights.....	Page 14-22
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Social Security Quick Chart—Family, Survivor, and Disability Benefits (2020).....	Page 14-24
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Family and Survivor Benefits	Page 14-26
Disability Benefits.....	Page 14-26
Medicare	Page 14-27
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Medicaid.....	Page 14-30
Supplemental Security Income	Page 14-30

Social Security and Medicare Highlights

	2020	2019	2018
Cost-of-living (COLA) adjustment	1.60%	2.80%	2.00%
Maximum earnings and still receive full social security benefits:			
Under full retirement age (FRA) at year-end	\$ 18,240	\$ 17,640	\$ 17,040
Year FRA reached ¹	48,600	46,920	45,360
Month FRA reached and later	No Limit	No Limit	No Limit
Maximum earnings subject to:			
Social security tax.....	\$ 137,700	\$ 132,900	\$ 128,400
Medicare tax	No Limit	No Limit	No Limit
Tax Rates			
Employee:			
Social security	6.20%	6.20%	6.20%
Medicare.....	1.45 ²	1.45 ²	1.45 ²
Employer:			
Social security	6.20%	6.20%	6.20%
Medicare.....	1.45	1.45	1.45
Self-Employed:			
Social security	12.40%	12.40%	12.40%
Medicare.....	2.90 ²	2.90 ²	2.90 ²
Earnings needed to earn one quarter of social security coverage	\$ 1,410	\$ 1,360	\$ 1,320
Medicare:			
Part A monthly premium ³	\$ 458.00	\$ 437.00	\$ 422.00
Part B monthly premium ⁴	144.60	135.50	134.00
Hospital deductible	1,408.00	1,364.00	1,340.00
Medical deductible.....	198.00	185.00	183.00

¹ Limit applies only to months before attaining FRA. See *Earnings May Reduce Benefits* on Page 14-25.

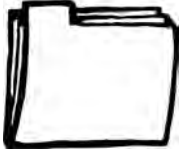
² Plus 0.9% additional Medicare tax on earned income exceeding \$200,000 (\$250,000 combined earned income if MFJ; \$125,000 if MFS).

³ Applies if less than 40 quarters of covered employment. Lower premium if 30–39 quarters of covered employment. See *Medicare Part A Premiums (2020)* on Page 14-27.


⁴ Beneficiaries with higher incomes pay a higher premium. See *Medicare Part B Premiums (2020)* on Page 14-28.

⁵ Amount not available at time of publication.

SOCIAL SECURITY BENEFITS

- 1) **Retirement.** Monthly benefits paid to retired workers as early as age 62.
- 2) **Family.** Monthly benefits paid to spouse, children (including dependent adults who have been disabled since childhood), and some ex-spouses of retired and disabled workers. 
- 3) **Survivor.** Monthly benefits paid to the widow(er), children (including dependent adults who have been disabled since childhood), some ex-spouses, and dependent parents of a deceased worker.
- 4) **Disability.** Monthly benefits paid to workers under age 65 with a qualifying disability.
- 5) **Supplemental Security Income (SSI).** Monthly benefits to disabled adults and children who have limited income and resources and to people age 65 and older without disabilities who meet the financial limits. See *Supplemental Security Income* on Page 14-30.

Social Security Statement


An individual's social security statement is available at www.ssa.gov/myaccount. To access the statement, individuals must create a *my social security* account. The statement includes estimates of the individual's retirement and disability benefits, lifetime earnings according to social security's records, and the estimated social security and Medicare taxes the individual has paid. 

Estimating Social Security Benefits

An estimate of social security benefits can be found on the social security statement or online at www.ssa.gov/benefits/retirement/estimator.html. There are calculators that estimate potential benefit amounts using assumptions about retirement dates and different levels of future earnings. The calculators show retirement benefits as well as disability and survivor benefit amounts.

Tax on Social Security Benefits

A portion of social security benefits is taxed if income above a "base amount" (based on filing status) is received in addition to social security benefits (IRC Sec. 86). Form SSA-1099 is received each January showing the amount of benefits received in the previous year. See the *Social Security Benefits Worksheet (2019)* on Page 3-11.

Single and HOH returns. If combined income is over \$25,000 (base amount) and under \$34,001, up to 50% of benefits are taxable. If combined income is above \$34,000, up to 85% of benefits are taxable. 

Joint returns. If combined income is over \$32,000 (base amount) and under \$44,001, up to 50% of benefits are taxable. If combined income is above \$44,000, up to 85% of benefits are taxable.

Married filing separate returns. If the taxpayer lived apart from his spouse all year, benefits are taxed the same as for a single person. If the taxpayer lived with his spouse at any time during the year, the base amount is \$0 and the taxpayer will generally pay tax on up to 85% of benefits regardless of income.

Continued on Page 14-25

Social Security Quick Chart—Retirement Benefits (2020)

	Early Retirement (Permanently Reduced Benefits)	Full Retirement (Full Benefits)	Delayed Retirement (Permanently Increased Benefits)																																																						
Eligibility for Benefits	Workers are eligible for early retirement benefits at age 62. Note: If retirement is disability-related, apply for disability benefits, which generally equal full retirement benefits.	Full retirement age (FRA) (see below) is when a worker can retire and collect full retirement benefits.	Delayed retirement is available for a worker over the FRA. At age 70, workers automatically receive benefits.																																																						
Age and Benefit Payments	Receiving benefits before FRA permanently reduces monthly benefits based on number of months benefits received before FRA. Spousal benefits based on the worker's coverage are also reduced. <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%;">Worker</th> <th style="width: 15%;">Spouse</th> </tr> </thead> <tbody> <tr> <td>Worker Born</td> <td>% of Full Benefits if Worker Receives Benefits at Age 62</td> <td></td> </tr> <tr> <td>1943–1954</td> <td>75.00%</td> <td>70.00%</td> </tr> <tr> <td>1955</td> <td>74.17</td> <td>69.17</td> </tr> <tr> <td>1956</td> <td>73.33</td> <td>68.33</td> </tr> <tr> <td>1957</td> <td>72.50</td> <td>67.50</td> </tr> <tr> <td>1958</td> <td>71.67</td> <td>66.67</td> </tr> <tr> <td>1959</td> <td>70.83</td> <td>65.83</td> </tr> <tr> <td>After 1959</td> <td>70.00</td> <td>65.00</td> </tr> </tbody> </table>		Worker	Spouse	Worker Born	% of Full Benefits if Worker Receives Benefits at Age 62		1943–1954	75.00%	70.00%	1955	74.17	69.17	1956	73.33	68.33	1957	72.50	67.50	1958	71.67	66.67	1959	70.83	65.83	After 1959	70.00	65.00	FRA depends on the year the worker was born. <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%;">Full Retirement Age</th> <th style="width: 15%;">Increase in Benefits Each Year After FRA</th> </tr> </thead> <tbody> <tr> <td>Worker Born</td> <td></td> <td></td> </tr> <tr> <td>1943–1954</td> <td>66 yrs, 0 months</td> <td>5.0%</td> </tr> <tr> <td>1955</td> <td>66 yrs, 2 months</td> <td>5.5</td> </tr> <tr> <td>1956</td> <td>66 yrs, 4 months</td> <td>6.0</td> </tr> <tr> <td>1957</td> <td>66 yrs, 6 months</td> <td>6.5</td> </tr> <tr> <td>1958</td> <td>66 yrs, 8 months</td> <td>7.0</td> </tr> <tr> <td>1959</td> <td>66 yrs, 10 months</td> <td>7.5</td> </tr> <tr> <td>After 1959</td> <td>67 yrs, 0 months</td> <td>8.0</td> </tr> </tbody> </table>		Full Retirement Age	Increase in Benefits Each Year After FRA	Worker Born			1943–1954	66 yrs, 0 months	5.0%	1955	66 yrs, 2 months	5.5	1956	66 yrs, 4 months	6.0	1957	66 yrs, 6 months	6.5	1958	66 yrs, 8 months	7.0	1959	66 yrs, 10 months	7.5	After 1959	67 yrs, 0 months	8.0	Delaying benefits past FRA increases benefits as follows:
	Worker	Spouse																																																							
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Earnings Limit/Benefits Reduction	Years before individual reaches full retirement age, benefits are reduced by \$1 for each \$2 earned over \$18,240.	<ul style="list-style-type: none"> In year FRA is reached (months up to FRA only) benefits are reduced by \$1 for each \$3 earned above \$48,600. Month FRA reached and later, there is no limit on earnings. 																																																							

	General Rule	Special-Rule—Certain Nonprofit Employees
Social Security Credits Needed for Coverage	Worker Born	Age on 1/1/84
Note: The same number of credits is required regardless of retirement date.	1929 or later	60 or over
	1928	59
	1927	58
	1925	57
	1926	55 or 56
	1924	

Medicare Quick Chart (2020)		
Part	Description	Premiums [†] / Deductible/Coinsurance [†]
A	Hospital Insurance. Covers inpatient hospital care, care in a skilled nursing facility following a hospital stay, hospice and home health care and blood.	<ul style="list-style-type: none"> None if 40 or more quarters of Medicare coverage. \$252/mo if 30–39 quarters of Medicare coverage. \$458/mo for other eligible individuals.
B	Medical Insurance. Covers doctors' services and other medical services and supplies.	<ul style="list-style-type: none"> Deductible: \$198 Coinsurance: 20% of Medicare-approved amount.
Eligibility	Workers are not eligible for Medicare until they are age 65, are disabled or have permanent kidney failure. Receiving social security benefits before FRA has no impact.	

[†]Amounts not available at time of publication.

in which the disabled individual's earnings are over \$910. The trial work period continues until the individual has worked nine months within a 60-month period.

Extended eligibility period. For at least 36 months after a successful trial work period, if a person is still disabled, he will be eligible to receive a monthly benefit without a new application for any month his earnings drop below \$1,260 (\$2,110 if blind) (for 2020).

Expedited reinstatement. If benefits stop due to substantial earnings, a person who is unable to continue working due to his disability has five years to request that his benefits resume without reapplying or waiting for a review of the medical condition.

Deductions for impairment-related expenses. Work expenses related to the disability may be deducted from earnings in determining whether they constitute substantial work.

Medicare continuation. If an individual has premium-free Medicare hospital insurance and starts working, he may have at least 8½ years of extended coverage (including the nine-month trial work period if he is still disabled). After that, the individual may purchase Medicare Part A coverage by paying a monthly premium.

Other Payments—Impact on Disability Benefits

Workers' compensation or certain other government disability benefits may reduce social security disability benefits, or social security disability benefits may reduce other disability payments. The sum of all social security disability benefits paid to the worker and to his family cannot exceed 80% of the worker's earnings averaged over a period of time shortly before the disability.

Disabled After Age 62

If a worker becomes disabled after age 62 and has received a reduced retirement benefit before becoming entitled to disability payments, the disability benefit will be reduced for the number of months he received the early retirement benefit.

MEDICARE


www.medicare.gov

Medicare is a national health insurance program for:

- Persons age 65 and older.
- Certain disabled persons.
- Person of any age with permanent kidney failure or Lou Gehrig's disease.

Medicare is four programs:

- **Part A: Hospital insurance.** For most Medicare beneficiaries, there is no premium for Medicare Part A. Individuals who are ineligible for free Part A can still enroll, but must pay a premium. See the table *Medicare Part A Premiums (2020)* on Page 14-27.
- **Part B: Medical insurance.** See the table *Medicare Part B Premiums (2020)* on Page 14-28.
- **Part C: Combined Part A and Part B.** Private insurance companies approved by Medicare provide this combined coverage through Medicare Advantage Plans like HMOs and PPOs.
- **Part D: Prescription drug coverage.** Optional coverage—see *Medicare Drug Plans (Part D)* on Page 14-28.

 **Note:** See the table *2020 Medicare Benefits* on Page 14-29 for a listing of covered services.

Medicare premium assistance. If a Medicare recipient has limited income and assets, programs are available to help pay medical costs. State rules vary. Contact the applicable state medical assistance (Medicaid) office. Contact information for each state is available at www.medicare.gov. Choose "What Medicare Covers," use "Find someone to talk to" and select your state.

- 1) **Qualified Medicare Beneficiary (QMB).** Pays Medicare premiums, deductibles, and coinsurance for certain elderly and disabled persons entitled to Medicare Part A.

- 2) **Specified Low-Income Medicare Beneficiary (SLMB).** Pays the medical insurance (Part B) premium for persons with incomes up to 20% over the national poverty level.
- 3) **Qualifying Individual (QI).** Pays the Part B premiums only.
- 4) **Qualified Disabled & Working Individuals (QDWI).** Pays Part A premiums only.

Eligibility for Hospital Insurance (Part A)

Age 65 and older. A person is eligible for Medicare Part A if he:

- 1) Is receiving social security or railroad retirement benefits,
- 2) Is not receiving social security or railroad retirement benefits, but has worked long enough to be eligible for them,
- 3) Is entitled to social security benefits based on his spouse's (or divorced spouse's) work record, and that spouse is at least age 65 (the spouse does not have to apply for benefits in order for the person to be eligible based on the spouse's work) or
- 4) Has worked long enough in federal, state or local government to be insured for Medicare.



Under age 65. A person is eligible for Medicare Part A if he:


- Has been entitled to social security disability benefits for at least 24 months,
- Has received a disability pension from the railroad retirement board and meets certain conditions, or
- Has Lou Gehrig's disease.

Family members:

- 1) Under certain conditions, a spouse, divorced spouse, widow(er), and dependent parent may be eligible for hospital insurance at age 65.
- 2) Disabled widow(er) under age 65, disabled divorced widow(er) under age 65, and disabled children may be eligible, usually after a 24-month qualifying period.

Permanent kidney failure. People with end-stage renal disease are eligible for Medicare Part A at any age if they receive maintenance dialysis or a kidney transplant and:

- Are insured or are getting monthly benefits under social security or the railroad retirement system or
- Have worked long enough in government for Medicare insurance.

 **Notes:**

- A spouse or child with this condition may be eligible for coverage based on another's work record.
- There may be a three-month waiting period after dialysis treatments begin for coverage to commence.

Medicare Part A Premiums (2020)¹

Quarters of Covered Employment	Monthly Premium
30–39.....	\$ 252
Less than 30.....	458

¹ Applies only if ineligible for premium-free Part A. Part A is generally free when individual (or spouse) has at least 40 quarters of coverage.

² Amount not available at time of publication.

Eligibility for Medical Insurance (Part B)

- 1) A person age 65 or older, or a person entitled to Part A hospital insurance benefits, can enroll in Part B plan by paying a monthly premium. No social security or government work quarters of coverage are needed.
- 2) Aliens age 65 or older not eligible for hospital insurance must be lawfully admitted permanent residents and live in the United States for five years before they can enroll in Medicare Part B.



Higher Part B premiums for higher income individuals. Certain Medicare Part B enrollees pay a higher Part B premium based on their income.

Medicare Part B Premiums (2020)			
Annual Income ¹			Monthly Premium
Single, HOH, QW	MFJ	MFS	
≤ \$87,000	≤ \$174,000	≤ \$87,000	\$ 144.60
\$87,001–109,000	\$174,001–218,000	N/A	202.40
\$109,001–136,000	\$218,001–272,000	N/A	289.20
\$136,001–163,000	\$272,001–326,000	N/A	376.00
\$163,001–499,999	\$326,001–749,999	\$87,001–412,999	462.70
\$500,000 or more	\$750,000 or more	\$413,000 or more	491.60

¹ 2018 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing.
² Amount not available at time of publication.

The *Medicare Access and CHIP Reauthorization Act (MACRA)* increases the amount that Medicare beneficiaries will pay for Medicare Part B premiums based on modified adjusted gross income (MAGI) levels for years beginning in 2018. The income threshold levels will be frozen through 2019 and indexed for inflation beginning in 2020.

Medicare Options

Most Medicare beneficiaries can choose to receive all Medicare benefits either through the original fee-for-service program (Parts A and B) or through a variety of managed care and other programs under Medicare Advantage (Part C).

1) *Fee-for-service (Parts A & B)*. Medicare pays a set percentage of hospital, doctor and other health care expenses, and the beneficiary is responsible for certain deductibles and coinsurance payments. Beneficiaries choose Medicare-approved licensed physicians, hospitals, health care providers, or facilities.



Note: A Medigap policy can supplement fee-for-service coverage.

2) *Medicare Advantage Plans (Part C)*. Health maintenance organizations (HMOs), preferred provider organizations (PPOs) and provider-sponsored organizations (PSOs) have contracts with the Medicare program and provide all hospital and medical benefits covered by Medicare. Generally, services must be obtained from the provider's network unless for an emergency inside/outside the service area. The organization receives a monthly payment from Medicare and the beneficiary must be enrolled in and pay the monthly premium for Medicare Part B. A monthly premium and a co-payment each time a service is used is typically charged. In addition, some benefits beyond Medicare may be provided, including preventative care, prescription drugs, dental care, hearing aids, and eyeglasses.

Note: A Medigap policy is usually not needed with an advantage plan.

Medicare Drug Plans (Part D)

Everyone with Medicare can join a Medicare prescription drug plan (Part D) in their area. Individuals may sign up when they first become eligible for Medicare (three months before the month they turn age 65 until three months after the month they turn age 65). Individuals who receive Medicare due to a disability can join from three months before to three months after their 25th month of cash disability payments.

Individuals can also join, switch or drop Medicare Part D coverage during the open enrollment period, which runs from October 15–December 7. The change will take effect the following January 1. But, individuals who don't sign up when first eligible may pay a penalty (premiums increase by 1% for every month enrollment is delayed).

Caution: If an individual who is enrolled in a Medicare Advantage Plan that includes prescription drug coverage joins a Medicare prescription drug (Part D) plan, he will be disenrolled from his Medicare Advantage Plan and returned to Original Medicare.

Medicare Drug Coverage Cost Components	
The actual dollar amounts vary depending on the plan chosen and the drugs purchased.	
Component	Additional Cost
Monthly Premium	Paid in addition to Part B premium
Yearly Deductible	Amount paid before the plan pays
Copayments	Individual per-prescription share of cost

Source: www.medicare.gov

Income-related premium adjustment. An individual's monthly Medicare Part D premium is increased when his annual income reaches a certain level. This applies to Part D coverage he gets from a Medicare prescription drug plan, a Medicare Advantage Plan with prescription drug coverage (like an HMO or PPO), or a Medicare cost plan that includes Medicare prescription drug coverage.

Medicare Part D Premium Adjustment (2020)			
Annual Income ¹			Premium Adjustment ²
Single, HOH, QW	MFJ	MFS	
≤ \$87,000	≤ \$174,000	≤ \$87,000	\$ 0.00
\$87,001–109,000	\$174,001–218,000	N/A	12.20
\$109,001–136,000	\$218,001–272,000	N/A	31.50
\$136,001–163,000	\$272,001–326,000	N/A	50.70
\$163,001–499,999	\$326,001–749,999	\$87,001–412,999	70.00
\$500,000 or more	\$750,000 or more	\$413,000 or more	76.40

¹ 2018 AGI plus tax-exempt interest and exclusions for U.S. savings bond interest and foreign earned income and housing.
² This amount is paid in addition to the plan's premium.
³ Amount not available at time of publication.

Individuals will be notified by social security if they have to pay the additional Part D premium.

The MACRA increases the amount that Medicare beneficiaries will pay for Medicare Part D premiums based on MAGI levels for years beginning in 2018. The income threshold levels will be frozen through 2019 and indexed for inflation beginning in 2020.

Coverage gap. Most Medicare drug plans have a coverage gap (also called the *donut hole*). This is a temporary limit on what the drug plan will pay for drugs. Not everyone will enter the coverage gap, which begins after the individual and the drug plan have spent a certain amount for covered drugs. It ends when the individual has spent a certain amount, including his annual deductible, coinsurance, copayments, and payments while in the coverage gap.



In 2020, if an individual reaches the coverage gap, he will receive a 75% discount when buying Part D-covered brand-name prescription drugs. Even though he will only pay 25% of the price for a brand-name drug, 75% of the price will count as out-of-pocket spending. In addition, a 75% discount will be received on generic drugs until the end of the coverage gap is reached.

Extra Help. Individuals who meet certain income and resource limits may qualify for Extra Help from Medicare to pay the costs of Medicare prescription drug coverage. Individuals automatically qualify if they have Medicare and meet any of these conditions:

- Have full Medicaid coverage.
- Get help from their state Medicaid program paying their Part B premiums (in a Medicare savings program).
- Get Supplemental Security Income (SSI) benefits.

2020 Medicare Benefits (Not All-Inclusive)

Hospital Insurance (Medicare Part A)—2020 Benefits per Benefit Period

Service	Benefit	Medicare Pays	Recipient Pays ¹
Hospitalization. Semi-private room and board, drugs as part of inpatient treatment, general nursing and other hospital services and supplies (includes mental health care).	First 60 days	All but \$1,408	\$1,408
	61st–90th day	All but \$352 per day ⁵	\$352 per day ⁵
	91st–150th day ²	All but \$704 per day ⁵	\$704 per day ⁵
	Beyond 150 days	Nothing	All costs
Skilled nursing facility care (following a hospital stay). Semi-private room and board, skilled nursing and rehabilitative services, and other services and supplies. ³	First 20 days	100% of approved amount	Nothing
	21st–100th day	All but \$176 per day ⁵	Up to \$176 per day ⁵
	Beyond 100 days	Nothing	All costs
Home health services. Medically-necessary part-time or intermittent skilled nursing care and/or physical therapy, speech-language pathology services, and/or services for people with a continuing need for occupational therapy. The patient must be homebound.	As long as medically necessary.	100% of approved amount; 80% of approved amount for durable medical equipment.	Nothing for services; 20% of approved amount for durable medical equipment.
Hospice care. Pain relief, symptom management, and support services for the terminally ill. Inpatient respite care (up to five days per stay) so usual caregiver can rest.	For as long as doctor certifies need.	Amounts over \$5 for outpatient drugs; 95% of Medicare-approved amount for inpatient respite care.	Up to \$5 for outpatient drugs and 5% of approved amount for inpatient respite care.

Medical Insurance (Medicare Part B)—2020 Benefits per Calendar Year

Service	Benefit	Medicare Pays ⁴	Recipient Pays ^{1, 4}
Medical expenses. Doctors' services, inpatient and outpatient medical and surgical services and supplies, physical and speech therapy, durable medical equipment, and other services.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount and limited charges above approved amount.
Laboratory services. Blood tests, urinalysis, diagnostic x-ray tests, some screening tests and more.	Unlimited if medically necessary.	Generally, 100% of approved amount.	Nothing for services.
Home health services. Medically-necessary part-time or intermittent skilled nursing care and/or physical therapy, speech-language pathology services, and/or services for people with a continuing need for occupational therapy. The patient must be homebound.	Unlimited if medically necessary.	100% of approved amount; 80% of approved amount for durable medical equipment.	Nothing for services; 20% of approved amount for durable medical equipment.
Outpatient hospital services. Services for the diagnosis or treatment of illness or injury.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount, plus co-pay for other than doctor's services.
Mental health care (outpatient). Counseling, psychotherapy.	Unlimited if medically necessary.	80% of approved amount.	20% of approved amount.
Ambulatory surgical services	Unlimited if medically necessary.	Generally, 80% of approved amount.	20% of approved amount.
Preventative services. Certain services, including flu and pneumonia vaccines, mammograms, pap smears, and pelvic exams.	Unlimited if medically necessary.	Generally, 100% of approved amount.	Nothing. May have to pay 20% of the charge for a doctor's visit.

¹ Either the recipient or the recipient's insurance company is responsible for paying the amounts listed in the "Recipient Pays" column.

² Sixty reserve days may be used only once in a lifetime.

³ Must be after a three-day minimum medically-necessary inpatient hospital stay.

⁴ Must meet the Part B deductible before Medicare pays. For 2020, the Part B deductible is **\$198**.

⁵ Amount not available at time of publication.

MEDIGAP INSURANCE

Medicare supplemental insurance policies (Medigap) are private insurance policies designed to cover all or part of the deductible and coinsurance amounts not covered by the original fee-for-service Medicare plan. Medigap policies may also cover certain things that Medicare doesn't cover.



Enrollment. After the effective date of Medicare Part B, there is a six-month open enrollment period for Medigap policies. During this period, a person age 65 or older cannot be denied or charged a higher premium due to poor health.

Pre-existing conditions. Policies may exclude coverage for pre-existing conditions during the first six months the policy is in effect. Pre-existing conditions are conditions diagnosed or treated during the six-month period before the effective date of the Medigap policy.

Standard Medigap Policies

Insurance companies can only sell standardized Medigap policies. Each standardized policy must have specific benefits. There are 14 different standardized Medigap policies (Medigap Plans A through N). Each plan has a different combination of basic and extra benefits. *Exception:* In Massachusetts, Minnesota, and Wisconsin, Medigap policies are standardized in a different way. See "Supplements and Other Insurance" at www.medicare.gov for details on all the standardized plans.

Note: Starting June 1, 2010, plans E, H, I, and J are no longer available to buy. But, individuals who already have those plans (or who bought them before June 1, 2010) can keep them.

Starting January 1, 2020, plans C and F will not be available for individuals that turn 65 on or after this date. Those that turn 65 before January 1 may enroll in plans C or F and those that already have these policies in place will be able to keep them.

Every Medigap policy must follow federal and state laws and must be clearly identified as *Medicare Supplement Insurance*. Insurance companies can sell only standardized Medigap policies. All plans

- 5) Decide whether certain family members or assets need special protection (minor children, those with special needs, family business).
- 6) Select beneficiaries and determine what provisions should be made for each.
- 7) Determine how financial and health care decisions will be made in the case of illness or disability.
- 8) Determine how health care will be funded.
- 9) Estimate the cost of alternative estate planning methods that will meet the goals.
- 10) Select and implement the estate plan.
- 11) Laws and family circumstances change.
Review plan regularly.




Special Considerations

Definition of spouse and marriage. All states are required to license marriages between same-sex couples. Therefore, for both federal and state tax purposes, spouses are married persons of the opposite sex as well as married persons of the same sex, regardless of their domicile. Regulations clarify that the term *marriage* does not include registered domestic partnerships, civil unions or similar formal relationships recognized under state law (Reg. 301.7701-18).


Individuals or couples with minor children. Individuals with minor children should designate a guardian to care for their children. Even individuals with trust-based estate plans should have wills designating guardians for their minor children.

Anyone with minor heirs or beneficiaries. If a minor is given property by will or as the direct beneficiary of an insurance policy or other asset, the minor receives the property upon reaching adulthood, usually age 18. Most people do not want large sums of money placed unconditionally in the hands of 18-year-olds. A trust can be used to postpone the receipt of an inheritance. Anyone leaving a sizable amount to a minor child should consider using a trust. Many states have statutory custodial arrangements to delay receipt of specific assets until age 21.

Maximizing a married couple's estate tax exclusions. With proper planning, married spouses can each fully use their own estate tax exclusion, allowing more property to pass to heirs free from estate tax. For example, assume the estate tax exclusion is \$11.4 million so when combined, a married couple's estate tax exclusions total \$22.8 million. However, couples whose estates are not equal or whose wills leave all or most property to the surviving spouse may miss the opportunity to fully use the estate tax exclusion of the first spouse to die unless the executor of the first to die elects portability (which transfers the first decedent's unused exclusion amount to the surviving spouse). See *Bypass trust* on Page 15-13 for estate planning that helps married couples maximize the use of their estate tax exclusion amounts. See the table *Estate and Gift Tax Credit/Exclusion* on Page 15-1 for the estate tax exclusion amounts.

 **Note:** See *Portability of Unused Exclusion Between Spouses* on Page 15-9.

Family businesses and farms. Specialized estate planning is essential for taxpayers who own businesses they hope to transfer to their heirs as going-concerns. The heirs and the IRS sometimes differ when valuing a family-owned business interest. Planning prior to death may help lower the estate tax value of the business interests or allow part of the business to be transferred before death at an estate tax savings. Estate tax breaks are also available if family business interests are a significant part of a decedent's estate. Qualifying real property can be valued based on its actual use rather than its highest and best use (IRC Sec. 2032A). Estate tax can be deferred for five years and paid over 10 annual installments at low interest rates (IRC Sec. 6166). See Tab H of the *Small Business Quickfinder® Handbook*.

 **Note:** With the higher estate tax exclusion and ability to elect portability of the unused exclusion, higher values (that is, not using the "actual use" value but the higher "highest and best use" value) may be more appropriate. This would give the heirs a higher basis for income tax purposes (and reduce the gain upon future disposition).

FILING INCOME TAX RETURNS FOR DECEDENT (FORM 1040)

Who Should File Return

Estate representative. If a court appoints a personal representative or other estate administrator, that person must file all required returns for the decedent. Form 56 (Notice Concerning Fiduciary Relationship) may be used to notify the IRS of the fiduciary relationship. A joint return can be filed for a decedent and surviving spouse if the spouse has not remarried at the end of the tax year and the surviving spouse and estate representative both agree to file jointly. If the surviving spouse remarried before the end of the tax year, the decedent's filing status is MFS.

Surviving spouse. If there is no court-appointed representative by the deadline for the return, the spouse can file a joint return with the decedent as long as he did not remarry before the end of the tax year. A spouse can file a joint return even if an estate representative is expected to be appointed. The representative, once appointed, may revoke the election to file jointly. If the surviving spouse is the appointed representative, he files for the decedent as representative and not as surviving spouse.



Person in charge of decedent's property. If there is no court-appointed representative and no surviving spouse, a "person in charge of the decedent's property" must file the tax returns. This person may be anyone in actual or constructive possession of decedent's property. Generally, one of the heirs is chosen informally by the others to act in this capacity. Filing by a person in charge of the decedent's property should only be done for estates that will not require probate. If the return shows a refund, the person must verify on Form 1310 (Statement of Person Claiming Refund Due a Deceased Taxpayer) that a court has not and will not appoint a representative. The IRS uses the term *personal representative* throughout its publications and instructions to refer to both appointed representatives and persons in charge of the decedent's property.

Itemized Deductions

Most rules for a decedent's deductions are the same as those for other individuals. Deductions are allowed if they were paid prior to the decedent's death and would have been deductible by the decedent as of the date of death (accrued before death for accrual method taxpayers).



Exceptions:

- Medical costs paid from the decedent's estate within one year of the day following death can be deducted either on Schedule A of the decedent's Form 1040 or on the estate tax return (Form 706) [IRC Sec. 213(c)]. If medical costs are deducted on the decedent's Form 1040, they are deducted in the year incurred, either on the decedent's final Form 1040 or by amending the Form 1040 from a prior year, and are subject to the 7.5%-of-AGI threshold.

If the expenses are claimed on Form 1040 or 1040X, attach a statement in duplicate listing the expenses, stating, "These amounts have not been claimed as deductions on Form 706. The estate waives the right to claim these amounts at any time as

Selected Taxpayer Penalties

Violation	IRC Sec.	Penalty
Failure to disclose foreign financial assets	6038D	\$10,000 penalty (increased if failure continues after notification). Max. \$50,000. Criminal penalties may apply.
Failure to file return (Late filing penalty)	6651(a)(1)	5% of unpaid balance for each month or part of a month the return is late. Maximum 25%. If the return is more than 60 days late, the minimum penalty is the lesser of \$330 (for returns required to be filed after 2019) or tax due. There is no penalty if the return shows no tax due. If the taxpayer is subject to failure to file and failure to pay penalties for the same month, the failure to file penalty is reduced by the failure to pay penalty. Note: Subsequently, the SECURE Act (enacted 12/20/19) increased the \$330 amount to \$435.
Failure to pay tax (Late payment penalty)	6651(a)(2)	0.5% of unpaid balance for each month or part of a month there is an unpaid balance. Maximum 25%. The penalty is half the usual rate for any months an installment agreement is in effect.
Fraudulent failure to file tax return	6651(f)	Section 6651(a)(1) penalty is replaced with 15% of tax per month not to exceed 75% of tax.
Underpayment of estimated tax by individuals	6654	Interest at federal rate for underpayments applied to the underpaid amount for the number of days late. See the table <i>Federal Interest Rates</i> on Page 16-6 for interest rates.
Bad check used to pay tax	6657	2% of check amount, subject to \$25 minimum (100% of check if less).
Accuracy-related penalty	6662 ¹	20% of underpayment attributable to any of the following: <ul style="list-style-type: none"> • Negligence or disregard of rules or regulations—failure to make a reasonable effort to comply with the tax law, including failure to keep adequate records or to use ordinary and reasonable care in preparing a return. • Substantial understatement of income tax—generally > 10% (5% if claiming QBI deduction) of correct tax and > \$5,000. • Substantial valuation misstatement—generally a valuation that is 150% or more of the determined value and causes a tax understatement of more than \$5,000. (Penalty is 40% for gross misstatement.) • Substantial estate or gift tax valuation understatement—valuation that is 65% or less of the determined value and causes a tax understatement of more than \$5,000. • Disallowance of claimed tax benefits due to a transaction lacking economic substance. • Undisclosed foreign financial asset understatement (penalty is 40%). • Inconsistent estate basis.
Accuracy-related penalty with respect to reportable transactions	6662A ¹	30% of the understatement for undisclosed <i>reportable transactions</i> ; ¹ 20% of understatement for all other transactions. See <i>Disclosing Reportable Transactions</i> on Page 16-5.
Fraud	6663 ¹	75% of underpayment attributable to fraud.
Erroneous refund claim	6676	20% of excess refund or credit unless taxpayer can show reasonable cause.
Frivolous or incomplete return	6702	\$5,000, regardless of actual tax liability. (\$500 if conditions of Rev. Proc. 2012-43 are satisfied.)
Willful attempt to evade or defeat tax	7201	Felony, up to \$100,000 fine, five years in prison or both; \$500,000 for corporations.
Willful failure to pay tax or file return	7203	Misdemeanor—up to \$25,000 fine, one year in prison or both; \$100,000 for corporations.
Willful making and subscribing to false return	7206	Felony—up to \$100,000 fine, three years in prison or both; \$500,000 for corporations.

¹ No penalty imposed if taxpayer can show a reasonable cause for the underpayment unless transaction lacks economic substance. See *Accuracy-Related Penalties* on Page 16-5.

Selected Tax Preparer Penalties

Violation	IRC Sec.	Penalty
Understatement of taxpayer's liability due to an unreasonable position ¹	6694(a)	Greater of \$1,000 or 50% of income derived from preparing the return.
Understatement due to preparer's willful or reckless conduct or intentional disregard of rules	6694(b)	Greater of \$5,000 or 75% of income derived from preparing the return, reduced by penalty paid under IRC Sec. 6694(a).
Failure to furnish copy of return to taxpayer ²	6695(a)	\$50 per failure, up to \$26,500 per year. ³
Failure of preparer to sign return	6695(b)	\$50 per failure, up to \$26,500 per year. ³
Failure to furnish preparer's identifying number	6695(c)	\$50 per failure, up to \$26,500 per year. ³
Failure to maintain copies of returns prepared or a client listing ²	6695(d)	\$50 per failure, up to \$26,500 per year. ³
Failure to maintain information under IRC Sec. 6060 on all preparers employed during a return period	6695(e)	\$50 per preparer or per item missing from required information, up to \$26,500 per year. ³
Endorse or negotiate a refund check issued to a taxpayer	6695(f)	\$530 (for 2019) per check. No maximum.
Failure to be diligent in determining eligibility for head of household filing status; eligibility for, or amount of, the earned income credit, child tax credit or American Opportunity Tax Credit	6695(g)	\$530 per failure. ³
Aiding and abetting an understatement of tax liability	6701	\$1,000 per taxpayer (\$10,000 for corporations) per taxable period.
Failure to file a return or filing false or incomplete reportable transaction information	6707	\$50,000 per failure for reportable transactions. Greater of \$200,000 or 50% of gross income (75% if intentional) from the transaction if a listed transaction.
Improper disclosure or use of return information	6713	Civil—\$250 for each disclosure or use up to \$10,000 per year. If related to identity theft, amounts increase to \$1,000 and \$50,000, respectively.
Improper disclosure or use of return information	7216	Misdemeanor—\$1,000 (\$100,000 if related to identity theft), one year prison or both plus prosecution costs.
Misrepresentation of experience, education or eligibility to practice before the IRS; guaranteeing payment of tax refunds; other fraudulent or deceptive conduct; conduct subject to penalty under IRC Sec. 6694 or 6695 or criminal penalty under the IRC	7407(b)	Court action to stop preparer from such conduct. Action to stop preparer from acting as a paid preparer for repeated violations.

¹ A position (other than a tax shelter or reportable transaction) is unreasonable if (a) the practitioner knew (or should have known) of the position, (b) there is not substantial authority for the position, and (c) the position was not disclosed. A disclosed position is unreasonable if there is no reasonable basis for it.

² Electronic copies of tax returns can be used to satisfy the maintaining and providing copies of tax return requirements.

³ 2019 amounts (Rev. Proc. 2018-57). Amounts adjusted annually for inflation.

Note: For some penalties, when there is an employment arrangement between two or more tax return preparers, the employer (including an entity) is the preparer [Reg. 1.6107-1(c)]. However, some penalties can be assessed against any preparer who acts improperly.

What's New



Tab 17 Topics

Inflation-Adjusted Amounts	Page 17-1
Tax Legislation	Page 17-1
Tax Relief for Disaster Victims	Page 17-1
Taxpayer First Act of 2019	Page 17-4

INFLATION-ADJUSTED AMOUNTS

For a complete summary of the inflation-adjusted amounts for 2019 (plus 2020 and 2018 and prior years) see the *Quick Facts Data Sheet* on Page 3-1.

TAX LEGISLATION

December 2019 Legislation

Taxpayer Certainty and Disaster Tax Relief Act of 2019.

Enacted on December 20, 2019, the Act retroactively extends certain expired provisions, generally through 2020. This means that taxpayers can apply many of these provisions to both 2019 and already-filed 2018 tax returns. The Act also provides relief for taxpayers affected by qualified disasters occurring from January 1, 2018 through January 19, 2020. In addition, the Act includes other provisions not related to expired provisions or disasters.

Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act). Enacted on December 20, 2019, the Act expands opportunities for individuals to increase their savings, and makes administrative simplifications to the retirement system.

Quickfinder tax act summaries. See the *Handbook Updates* section of the Quickfinder website (tax.thomsonreuters.com/quickfinder) for tables summarizing key provisions of the December 2019 legislation.

Taxpayer First Act of 2019

The Taxpayer First Act (TFA) was enacted on July 1, 2019. The key purpose of this legislation is to alter the management and oversight of the IRS with the aim of improving customer service and the appeals process. The TFA also provides new confidentiality safeguards as taxpayers interact with the IRS. An important provision of the TFA requires the Treasury Department to submit to Congress by September 30, 2020 a comprehensive written plan to redesign the IRS. The plan must (1) streamline the structure of the agency, including minimizing the duplication of services and responsibilities; (2) best position the IRS to combat cybersecurity and other threats to the agency; and (3) address whether the IRS's Criminal Division should report directly to the Commissioner. Beginning one year after the plan is submitted, the IRS's current structure, which features operating units that serve particular groups of taxpayers with similar needs, will cease to apply. For a summary of the key provisions of the TFA, see *Taxpayer First Act of 2019* on Page 17-4.

TAX RELIEF FOR DISASTER VICTIMS

Disaster Relief Alert: See *December 2019 Legislation* on Page 17-1 regarding legislative relief for taxpayers affected by certain qualified disasters. The Internal Revenue Code provides a number of special tax relief provisions available to victims of a federally declared disaster. For purposes of these provisions, the term *federally declared disaster* means any disaster subsequently determined by the President of the United States to warrant assistance by the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act, and the term *disaster area* means the area so determined to warrant such assistance [IRC Sec. 165(i)(5)]. A *federally declared disaster* includes a major declaration or an emergency declaration under the Act (Rev. Rul. 2003-29; IRS Pub. 547).

Help for Disaster Victims—Quick Summary

For taxpayers impacted by a disaster, the Code may provide necessary relief. The Code permits the IRS to grant taxpayers affected by a federally declared disaster additional time to perform certain time-sensitive acts, including filing returns and paying taxes when the original or extended due date of the return or payment falls within the disaster period. In addition, affected individual and business taxpayers in a federally declared disaster area can more quickly obtain a refund by claiming losses related to the disaster on the tax return for the previous year, usually by filing an amended return. See *Casualty Losses* on Page 5-16. See Tab N of the *Small Business Quickfinder® Handbook* for a discussion of business casualties and Tab 4 of the *Individuals—Special Tax Situations Quickfinder® Handbook* for an expanded discussion of disaster victims.

The IRS website has information on the most recent tax relief provisions for taxpayers affected by disaster situations. Search for “Disaster Assistance and Emergency Relief for Individuals and Businesses” at www.irs.gov for a listing of covered disaster areas and tax relief provided in response to a federally declared disaster. Information on prior tax relief provided by the IRS in disaster situations, based on Federal Emergency Management Agency (FEMA) declarations of individual assistance, is also available. Helpful IRS materials include IRS Pubs. 547 (Casualties, Disasters, and Thefts) and 2194 (Disaster Resource Guide for Individuals and Businesses). For an additional resource, see the table *2019 Federally Declared Disasters* in Tab 4 of the *Individuals—Special Tax Situations Quickfinder® Handbook*.

Affected taxpayer. A taxpayer does not have to be located in a federally declared disaster area to be an *affected taxpayer*. Taxpayers are *affected* if records necessary to meet a filing or payment deadline postponed during the relief period are located in a covered disaster area.

An affected taxpayer can be:

- An individual (includes relief workers).
- Any business entity or sole proprietor.
- Any partner or shareholder in an affected partnership or S corporation.

Note: See *Deadlines postponed* on Page 17-2 for a list of taxpayer acts that may be postponed in response to a federally declared disaster.

Affected tax preparer. Disaster relief applies to tax preparers who are unable to file returns or make payments on behalf of their clients because of the disaster. A taxpayer outside of the disaster area may qualify for relief if:

- His preparer is located in the disaster area, and
- The preparer is unable to file or pay on the taxpayer's behalf.

To get the postponement for filing or payment, a taxpayer should:

- Call the Disaster Assistance Hotline at (866) 562-5227.
- Explain that the necessary records are located in a covered disaster area.
- Provide the FEMA Disaster Number of the county where the tax preparer is located.

Casualty losses. Affected taxpayers have the option of claiming casualty losses attributable to federally declared disasters on their federal income tax return for either the current tax year or the previous tax year. Claiming the loss on an original or amended return for the prior year will allow the taxpayer to receive a refund earlier, but waiting to claim the loss on the current year's return could result in a greater tax saving, depending on other income factors.

If claiming the disaster loss on the previous year's tax return, put the disaster designation in red ink at the top of the form so that the IRS can expedite the processing of the refund.

Other relief. The IRS will waive the usual fees and expedite requests for copies of previously filed tax returns for affected taxpayers who need them to apply for benefits or to file amended returns claiming casualty losses. Form 4506 (Request for Copy of Tax Return) should be filed with the assigned disaster designation in red ink at the top and submitted to the IRS.

Affected taxpayers who are contacted by the IRS on a collection or examination matter should provide an explanation of how they were impacted by the disaster so that the IRS can provide appropriate consideration to their case.

Taxpayer First Act of 2019 (Continued)

Item	IRC Sec.	Effective Date	New Law	Before Law Change
Other Provisions				
Volunteer Income Tax Assistance (VITA) Program	7526A	N/A	Unless otherwise provided by specific appropriation, the IRS may allocate up to \$30 million per year in matching grants to qualified entities for the development, expansion, or continuation of qualified tax return preparation programs. The IRS may use mass communications and other means to promote the VITA program.	Through its VITA program, the IRS partnered with volunteer organizations to provide free tax return filing assistance to low-income populations, persons with disabilities, taxpayers with limited English proficiency, and other underserved communities.
Low Income Taxpayer Clinics	7526	7/1/19	IRS personnel may advise taxpayers of the availability of, and eligibility requirements for receiving, advice and assistance from qualified low-income taxpayer clinics. They also can provide location and contact information for the clinics.	The IRS could provide up to \$6 million per year in matching grants to low-income taxpayer clinics. However, IRS personnel were generally prohibited from referring taxpayers to clinics for advice and assistance.
Whistleblower Reforms	6103(k) and 7623(d)	7/1/19	The IRS may exchange information with whistleblowers, but only if such information would further the investigation. Also, the IRS must notify whistleblowers of the status of their claims at certain points in the review process. Under penalty of law, whistleblowers are prohibited from disclosing information received from the IRS. Whistleblowers receive anti-retaliation protection similar to that provided by the False Claims Act and the Sarbanes-Oxley Act.	Individuals who submitted information leading to the detection of a tax underpayment (or the detection, trial, and punishment of violators of internal revenue laws) could file a claim for an award.
Feasibility of Return-Free Tax System	N/A	7/1/19	These requirements are repealed.	The RRA required the IRS to study the feasibility of, and develop procedures for, the implementation of a return-free tax system for appropriate individuals. The IRS was required to report annually on the development of the system.
Failure to File Penalty	6651	1/1/20	For returns required to be filed on or after the effective date, the \$205 penalty amount described in the Before Law Change column is increased to \$330 (adjusted for inflation for returns required to be filed in a calendar year beginning after 2020). Note: Subsequently, the SECURE Act (enacted 12/20/19) increased the \$330 amount to \$435.	Absent reasonable cause, if a return was filed more than 60 days after its due date, the failure to file penalty was the lesser of \$205 or 100% of the tax amount required to be shown on the return. The \$205 amount was subject to an inflation adjustment (\$215 for 2019).

— End of Tab 17 —

STEP 11

Education Expenses (Attach Forms 1098-E, 1098-T, and 1099-Q)

Include information about education expenses incurred for you, your spouse, or your dependents.

1) Student's Name	_____	_____	_____
2) If in college, was student enrolled at least half-time for at least one academic period beginning in 2019?	Yes No	Yes No	Yes No
3) Felony Conviction? ¹	Yes No	Yes No	Yes No
4) Educational Purpose (degree seeking, job related).....	_____	_____	_____
5) Name of Institution.....	_____	_____	_____
6) Total Amount Paid (attach detailed list of expenses) (See Tax Tip 14)	\$ _____	\$ _____	\$ _____
7) Paid By Whom?.....	_____	_____	_____
8) Student's Grade or Year in College	_____	_____	_____

¹ Indicate whether or not student was convicted before 12/31/2019 of a felony for possession or distribution of a controlled substance.

STEP 12

Itemized Deductions

Complete this step only if you think your total itemized deductions might exceed the IRS standard deduction for your filing status (see below).

2019 Standard Deduction

Filing Status	Standard Deduction	Add for Blind and/or Over 65
Married Filing Jointly or Qualifying Widow(er)	\$ 24,400	\$ 1,300
Single.....	12,200	1,650
Head of Household.....	18,350	1,650
Married Filing Separately.....	12,200	1,300
Did your spouse itemize deductions on a separate return (or are you a dual-status alien)?	Yes	No

Medical Expenses

Deductible only if net expenses exceed 7.5% of Adjusted Gross Income (AGI)

Note: Do *not* include amounts paid for or reimbursed by insurance or health insurance premiums paid with pre-tax income.

Did you pay medical expenses for a person you cannot claim as a dependent? Yes No *If yes, ask your tax preparer.*

Health Insurance Premiums ¹ (Include premiums for vision and dental insurance but not for disability or loss of income policies).....	See Note Above	\$ _____
Medicare Insurance Premiums ¹ (Form SSA-1099)		_____
Long-Term Care Insurance Premiums ¹ (Tax Tip 15).....		_____
Prescribed Drugs and Insulin		_____
Doctors and Clinics.....		_____
Dentists and Orthodontists		_____
Glasses, Contact Lenses, Eye Exams, Laser Eye Surgery.....		_____
Hospitals, Nurses, Ambulance.....		_____
Nursing or Long-Term Care Facility.....		_____
Other (please detail): _____		_____
_____		_____
_____		_____
_____		_____
_____		_____
Medical Miles Driven in 2019.....		_____
Parking Fees	_____	
Lodging While Obtaining Medical Treatment <i>Limited to \$50 per night, per person</i>	_____	

¹ Do not include any premiums included in STEP 9 (if self-employed).